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UNITED STATES

U.S. Human Rights Criticized as 'Hypocritical'

93CM0421A Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese No 49,
13 Jul 93 pp 28-34

[Article by Liu Wenzong, professor at the Foreign Affairs College: "On the Human Rights Diplomacy of the United States"]

[Excerpts] The "human rights diplomacy" of the United States was started by President Carter and was perfected during the Reagan era. Under President Bush, conducting such diplomacy became a fundamental national policy and was considered of equal strategic importance with peace and security.

U.S. "human rights diplomacy" represents an effort to impose the human rights standards of the United States on others and to interfere in the internal affairs of other nations under the guise of promoting "human rights." Such diplomacy is characterized by a triple standard which entails differentiated treatment, and is therefore very hypocritical. [passage omitted]

II

As shown above, the "human rights diplomacy" of the United States is very hypocritical; this hypocrisy is mainly demonstrated in the following aspects:

1. Interpreting human rights in a one-sided manner and imposing U.S. standards on others.

Although the United States repeatedly emphasizes the need to "respect internationally recognized human rights," in its practice of "human rights diplomacy" the United States has never clearly expounded what "internationally recognized human rights" are. In fact, the concept of "human rights" is a very broad one. So far, there is no common definition of "human rights" accepted by scholars. Even international human rights conventions do not contain a clear definition, but only list many specific things. However, is it the case that the "internationally recognized human rights" that the United States is talking about do not denote specific things? No. They do denote specific things, that is, they mainly refer to the U.S. Constitution's first 10 amendments which are customarily called the "Bill of Rights" (or the "Civil Rights Bill"). In brief, the 10 amendments involve the following three main categories of rights:

A. Personal liberties and rights, including: 1) freedom of religion; 2) the freedoms of speech and the press; 3) the freedoms of peaceful assembly and petition; 4) the right of the people to keep and bear arms; 5) that no soldiers shall be quartered in people's houses; 6) the right of the people to be secure in their persons and houses; and 7) the property right.

B. Rights relating to litigation procedures, including: 1) the right to trial by a jury; 2) the double jeopardy

principle (prohibition against a second prosecution and judgment for the same offence); 3) the right to have the assistance of counsel for defense; and 4) the prohibition against compelling a person in any criminal case to be a witness against himself.

C. The federal system based on separation of powers. The 10th Amendment of the Constitution stipulates that the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

As shown above, the "human rights" that the United States advocates are basically the traditional Western civil and political rights, and do not include economic, social, and cultural rights at all. This situation is in fact far from meeting the extensive human rights requirements set by the international community. First, as far as international law and the international human rights conventions are concerned, discussion of human rights must be based on a comprehensive consideration of the United Nations Charter, the Universal Declaration on Human Rights, the International Covenant on Economic, Social, and Cultural Rights (1966), the International Covenant on Civil and Political Rights (1966), and the other dozens of international human rights conventions and instruments on particular subjects in their totality; and it is not proper to use one's own limited constitutional standards for judging other countries' human rights situations. Second, in view of the development levels of different countries, it is not proper to make uniform human rights demands on all countries. In today's world, the income gap between the developed countries and the developing countries is growing. Social and economic development is slow in many developing countries; in each of those countries one-third (or even over a half) of the population is still struggling on the brink of starvation and amid poverty. To the developing countries in general, the most urgent human rights issue lies in striving for the right to existence and the right to economic, social, and cultural development. The right to existence and the right to development are particularly important to the developing countries. Only under the precondition of being able to exist would it be possible to seek development; only through continuous development would it be possible to expand economic, social, and cultural rights as well as civil and political rights. Avoiding such issues and discussing other matters instead would be tantamount to making a notch on the side of a moving boat to mark the location of a submerged sword, or trying to catch fish in a tree. Third, with different historical backgrounds, social systems, cultural traditions, and religious beliefs, countries would naturally have differences in their understanding and practice of human rights; and it is impossible to have one uniform human rights concept and model. In evaluating countries' human rights situations, it is imperative to respect the countries' history and reality, respect the countries' sovereignty, and observe the principle of non-interference in the internal affairs of other countries; it is necessary not to impose the human rights model of a

state or a region on others, and especially not to impose one's own social system, ideology, and development model on other countries.

2. Using human rights issues as a pretext to interfere in the internal affairs of other countries, thereby promoting its foreign policy goals.

For a long time, the United States has not only used human rights issues as a pretext to interfere in the internal affairs of other countries around the world, but has also made use of international institutions for such interference purposes. The United States poses as the "world judge," using its own political standards and legal philosophy for judging other countries' human rights situations. It would often impose "sanctions" on the countries which do not live up to its human rights standards, and would even explicitly demand that other countries change their domestic policies or political systems, thereby seriously encroaching upon many developing countries' sovereignty and dignity.

The human rights issue in its essence is a matter of a state's domestic jurisdiction. In terms of international law, the respect for state sovereignty and noninterference in internal affairs are commonly recognized principles of international law. To negate the principle of sovereignty is to negate the foundation for contemporary international law. No matter how important the issue of human rights is, the issue is always subordinate to state sovereignty. International law is the collection of principles, rules, and regulations governing the relations between countries, and results from agreements made between sovereign countries on the basis of their independent wills. Without sovereign countries, there would be no international law, and also no international protection and domestic enforcement of human rights. The draft Declaration on Rights and Duties of States submitted by the U.N. International Law Commission to the U.N. General Assembly in 1945 already contained such provisions as follows:

"Article 1: Every state has the right to independence and hence to exercise freely, without being subject to dictations by any other state, all its legal powers, including the choice of its own form of government."

"Article 2: Every state has the right to exercise jurisdiction over its territory and over all persons and things therein, subject to the privileges and immunities recognized by international law."

"Article 3: Every state has the duty to refrain from intervention in the internal or external affairs of any other state."

"Article 4: Every state has the duty to refrain from fomenting civil strife in the territory of another state, and to prevent the organization within its territory of activities calculated to foment such civil strife."

"Article 5: Every state has the right to equality in law with every other state."

In terms of the provisions listed above, the "human rights diplomacy" of the United States exactly constitutes interfering in other countries' choice of their forms of government, obstructing other countries in their exercise of jurisdiction over all persons and things in their territories, intervening in the internal affairs of other countries, even fomenting strife in other countries, and if the objectives are not reached, imposing so-called "sanctions" on other countries. How could such behavior represent concern for human rights? Such behavior represents out-and-out power politics and a out-and-out hegemonist policy.

On 9 December 1981, the U.N. General Assembly in its resolution 36/103 adopted again the Declaration on the Inadmissibility of Intervention and Interference in the Internal Affairs of States. The declaration explicitly stipulates that "no state or group of states has the right to intervene or interfere in any form or for any reason whatsoever in the internal and external affairs of other states." With regard to the issue of human rights, the declaration provides for "the duty of a state to refrain from the exploitation and the distortion of human rights issues as a means of interference in the internal affairs of states, of exerting pressure on other states or creating distrust and disorder within and among states or groups of states." The "human rights diplomacy" of the United States is totally contrary to the above-mentioned principles of international law.

3. Arguing that "human rights are above sovereignty" and that "human rights have no borders," and denying that human rights are a matter of domestic jurisdiction.

As pointed out above, no matter how important the issue of human rights is, the issue is subordinate to state sovereignty. But, in 1990 Dan Quayle, then Vice President of the United States, said at the 48th Human Rights Conference: "The United States makes promoting human rights a fundamental national policy, . . . the days are gone when a government could use sovereignty' and noninterference in internal affairs' as pretexts to confront charges of human rights violations." Richard Schifter, former U.S. assistant secretary for human rights and humanitarian affairs, also said: "The issue of human rights is no longer considered essentially a matter of domestic jurisdiction of a state." Some in the United States even claim: "Human rights have no borders. It is legitimate for a state to express concern over, or even take unilateral or collective actions on human rights problems within another state, and such conduct does not constitute interference in the internal affairs of a state." The real purpose of putting the issue of human rights above sovereignty is to use human rights as a pretext to topple governments of sovereign states and to change the political systems of sovereign states. There have been many instances in this regard in recent years. Is it still necessary to prove this point?

The first reason why human rights are subordinate to state sovereignty is that state sovereignty refers to a state's independence in external affairs and ability to

exercise supreme power internally. So-called independence in external affairs means that a state conducts all its external affairs without being subject to outside interference and dictation from any other states; the so-called exercise of supreme power internally means that a state has the supreme territorial power or territorial sovereignty over all persons and things in its territory, including the state's supreme powers to determine its social, political, and economic systems, to create legislation, to establish judicial organs, and to command all the armed forces of the state through its supreme organ of power. Except in cases of voluntary limitations, state sovereignty should not be diminished or taken away under any circumstances. Any effort to establish supranational institutions or organs of power will threaten the foundation for contemporary international law and lead ultimately to the disintegration of the international community. Herein lies the theory and practice of contemporary international relations and international law.

Second, human rights are enforced in a state through constitutional, legislative, or other relevant measures. The formulation of such laws is of course a matter of sovereign jurisdiction of a state and no other state has the right to interfere. Internationally, human rights are enforced through concluding international treaties which impose relevant obligations on states. But, a state can refrain from acceding to the human rights conventions which are not suited to its own political system and level of social and economic development, or accede to those conventions subject to some reservations, so as to avoid assuming treaty obligations which would harm the state's sovereignty. Even when treaties are concluded, the treaties would establish the relations of rights and duties among states, and have constraining effect only directly on the states. The treaties can have their effect only after the states give the treaties the force of domestic laws in accordance with their own constitutions and legal systems. This is exactly a case of exercising state sovereignty. In fact, many states—including the United States—act in such a manner. Therefore, the enforcement and international protection of human rights, fundamentally depends on the states and their domestic legislation.

Third, as far as existing international human rights conventions are concerned, state sovereignty still occupies the priority position. For instance, the Universal Declaration of Human Rights stipulates that in the exercise of rights and freedoms, everyone shall be subject to "such limitations as are determined by law" for the purpose of "securing due recognition and respect for the rights and freedoms of others." The International Covenant on Economic, Social, and Cultural Rights stipulates that the state may subject such rights to such limitations as are determined by law for the purpose of promoting the general goals of society. The International Covenant on Civil and Political Rights stipulates that "where not already provided for by existing legislative or other measures," each party to the covenant undertakes,

"in accordance with its constitutional processes . . . , to adopt such legislative or other measures as may be necessary to give effect to the rights recognized in the present covenant." The European Convention for the Protection of Human Rights stipulates that "everyone has the right to freedom of expression," but that "the exercise of these freedoms, since it carries with it duties and responsibilities, may be subject to such formal conditions, restrictions, and penalties as prescribed by law." As is shown, the rights and freedoms provided by the international human rights covenants not only have to be enforced through domestic legislative measures, but also are subject to the limitations imposed by laws of the parties to the covenants. Such a situation fully demonstrates the meaning of respect for the states' sovereignty. If human rights were understood in a broad sense, no state would be able to put up with a situation where "human rights are above sovereignty" and where "human rights have no borders."

Nevertheless, is it then the case that, as some people in the West say, states can "hide behind the shield of sovereignty and shirk their human rights responsibilities?" No! Since World War II, dozens of UN-sponsored international human rights conventions have been signed. These conventions have played a positive role of varying magnitude in facilitating international cooperation and in promoting and encouraging respect for the human rights and fundamental freedoms of all human beings. However, the development of human rights is constrained by states' historical, social, economic, cultural, and other conditions, and is a process of historical development. Each state can only determine whether to accede to a particular international human rights convention and assumes the obligations concerning the respect for human rights and fundamental freedoms as stipulated by the United Nations Charter, in view of its own historical background, social system, cultural traditions, and the state of economic development (it must be pointed out that the United States has acceded to very few of these conventions). To achieve international protection of human rights through accession to international conventions represents the only feasible approach. As for the brutal violations of human rights resulting from colonialism, racism, and foreign aggression and occupation as well as such instances of serious violations of human rights as apartheid, racial discrimination, genocide, slave trade, and international terrorism, the international community of course has the responsibility for intervention and suppression. Such intervention and suppression actions should usually be based on the use of nonmilitary means, except when foreign aggression and occupation endanger international peace and security. It is absolutely impermissible to send armed forces "into a country to protect human rights and fight disasters" under the guise of "humanitarian intervention," as some people in the West advocate. Such a practice can only further complicate the problems, and would be of no help to the solution of the problems.

4. Using a triple standard regarding human rights, with deeds failing to match words.

In the past half century, the United States has used a "triple standard" regarding the issue of human rights:

First, the United States is silent about its own human rights problems, and will not let other states intervene. During the 1940s and 1950s, the United States made extensive efforts to suppress the Communist Party and workers' movements; furthermore, it adopted the practice of conducting loyalty investigations of civil servants nationwide. All this seriously violated human rights. In 1947, the U.S. Congress passed the Taft-Hartley Act to suppress workers' movements. In 1950, the U.S. Congress passed the MacCarran Act stipulating that the Communist Party and all other progressive organizations must register and be supervised by the Subversive Activities Control Board. On 9 February 1957 the U.S. House of Representatives Committee on Un-American Activities accused 733 organizations and publications of being "subversive in nature" and 200,000 people of being red elements or red sympathizers. On 8 February 1958 the committee accused 1 million people of taking part in nationwide political subversive activities (see *World Knowledge Yearbook 1957*, p 797). These unlawful activities which seriously encroach upon the constitutionally stipulated rights and freedoms of U.S. citizens were not prohibited for a long time. During April-May 1992, large-scale racial riots broke out in Los Angeles in the United States because of the case of the beating of the young black motorist Rodney King by white police officers. As shown in this case, racism is still rampant in the United States. As a commentary in a foreign publication says, "Just because the race problem was not mentioned in U.S. publications in the past decade, this does not mean that the problem has been alleviated." "In the United States the large gap between blacks and whites continues to exist."

Second, the United States does not show any concern over the human rights problems of its "friends" or allies, much less intervening. There is no need to mention events from long ago. Just take the recent case of the Israeli Government's expulsion of over 400 Palestinians from southern Lebanon. The United Nations adopted Resolution 799 on this incident of serious violation of human rights, demanding that the Israeli Government immediately allow all the Palestinians to return to their homes. However, the United States adopted an ambivalent attitude all the while. Because of that, many Arab countries criticized the United States for being partial to Israel.

Third, the United States uses human rights as a pretext to interfere in the internal affairs of countries which do not agree with the United States on foreign policy, especially the socialist countries and some developing countries. On 18 February 1992, a reader in the United States wrote in his letter to the New York Times: "The international law community clearly knows that it is not permissible to use human rights issues as a pretext to interfere in the internal affairs of other countries. It is very dishonest for American politicians to pretend to be ignorant of the above-mentioned issue. They should first

think about and answer this question: Does the international community have the right to interfere in the internal affairs of the United States because of human rights violations in the United States?" This reader's criticism was to the point. This shows that the "human rights diplomacy" of the United States is not based on consistency in conduct.

III

The full enjoyment of human rights is the common ideal of all mankind, and should be safeguarded and promoted through actions taken by countries around the world in the UN system. With regard to this issue, it is absolutely necessary that no single state be allowed to impose its own political system, economic model, or value conceptions, including its own human rights concepts on others, as if it is conquering the world single-handedly; it is even less permissible to use one's own standards for judging other countries' human rights situations, to link foreign aid, technological and economic cooperation, and the most-favored-nation treatment to human rights issues, or to use these things as means of applying political pressure. In this regard, it is necessary to fully respect the sovereignty and national self-determination of all countries.

From a worldwide perspective, in promoting human rights, it is first of all necessary to resolve the issue of gross, brutal human rights violations resulting from racism, apartheid, colonialism, and foreign aggression and occupation, and to find effective methods and ways of suppressing such violations.

At the same time, it is also necessary to support those peoples who have not gained their independence in their struggle for self-determination. The difficulties that many developing countries are encountering now have been created mainly by the unjust and unfair international economic order that has been in existence for a long time. Therefore, the right to development is the developing countries' inalienable human right. The United Nations and all the human rights agencies or conferences should give priority to exploring effective measures to effect this right. In order to prevent some countries from using human rights issues as a tool for interfering in the internal affairs of other states, the United Nations and all the human rights agencies or conferences should reaffirm the principle of state sovereignty as one of the fundamental principles of international law and international relations, and respect each state's independent choice of its own political, economic, and social systems and its approach to development. We must suppress one or a few countries' practice of posing as the "world judge" and passing judgments on other states' "human rights problems" while hiding the truth about gross violations of human rights in their own countries and prohibiting others from making criticisms. In promoting human rights, we must conduct international cooperation, act strictly in accordance with the purposes and principles of the United

Nations Charter, and adhere to the principled policy of "safeguarding human rights, respecting sovereignty, and opposing hegemony" on the basis of mutual respect and equal exchanges. Only in this way

will it be possible to truly accomplish the purposes and implement the principles of the United Nations Charter, so that the human rights and fundamental freedoms of all human beings are fully respected.

NATIONAL AFFAIRS, POLICY

Noted Economists Comment on Ways To Cool Economy

93CE0758A Beijing JINGJI RIBAO in Chinese 5.
6 Jul 93

[Report in two parts by reporter Yang Xiaolin (2799 2556 2651): "Hearing Expert Comments on the Cooling and Heating of the Economy and on Effective Regulatory and Control Measures—Record of Interviews With Economists"]

[5 Jul 93 p 1]

[Text] Editor's Note: The "express train" of China's economy is rushing on with great speed. It is a wonderful trend, but also beset with some conspicuous problems. How are we to judge the present state of the economy? How are we to resolve the conspicuous contradictions in economic operations? These are topics that are on everyone's mind. At the beginning of this year, this reporter invited four economic experts to forecast this year's economic trend. Our readers welcomed and commended this action (see the first page of this year's 9 August issue of our newspaper). After half of 1993 has passed, the economic situation is even more complex, and as macro-regulation and control faces a time of most important choices, this reporter again interviewed the same four experts and a few other personalities in the field of economics, asking them to "take the temperature" of the present economic situation, and to "write a prescription" for a policy of macro-regulation and control, also to state prospects and offer a forecast of operations and trends for the second half of this year. We hope that the opinions expressed by these experts will help our readers gain a full understanding of the present situation, and that these opinions will also serve as a reference to relevant government departments in their policy decisions. [end editor's note]

Don't Use High Inflation Rate To Support High Growth Rate

Liu Guoguang [0491 0948 0342], vice president, Chinese Academy of Social Sciences

Last year, China's economy again experienced a rapid growth rate. Because it was at that time still at a stage of economic recovery, the economic boom that lasted 10 odd months was, generally speaking, a basically regular phenomenon. However, economic prosperity was accompanied by some problems that should have deserved attention and resolution, namely:

1) An excessively large number of projects were initiated among the fixed capital investments. 2) The supportive capabilities of the infrastructure and of basic industries had been insufficient. 3) The scale of bank loans had been excessive and currency issue had been equally excessive.

Since the start of this year, the currency issue has been continuously increasing, and commodity prices have been further rising. During the first quarter of this year, the retail price index of commodities rose 8.6 percent, compared to the corresponding time last year, while the cost of living index in 35 large and medium cities rose 15.7 percent. In April, it even rose to as high as 17 percent. It means that the potential inflationary pressure, which has been building up over the last few years, has begun to burst out and to become apparent, and it has had the effect of raising inflationary fears among the citizens and had them try to preserve the value of their assets. It has dampened their enthusiasm for savings deposits, and has already brought about a decline in the absolute value of the citizens' deposits. This is an important signal. If the situation is allowed to continue, consequences are extremely worrisome. In May, the state raised interest rates for deposits and loans, which was to some extent effective in curbing inflation, in easing the anxiety of the citizens, and in stopping the further decline in bank deposits. It must be pointed out, however, if the intention is to completely eliminate the adverse effect of the negative interest rate, to reduce the inefficient use of capital funds, and to eliminate the scramble for capital funds in these times of tight money, the extent of the present increase in interest rates for deposits and loans is by far inadequate. At present, large amounts of capital circulating outside the system foster overheating of such "hot spots" as the real estate business and the development zones, and thereby further aggravate the shortage of capital funds. All these facts increase the difficulties for macroeconomic regulation and control.

However, there are differences between some phenomena of overheating in the present high-speed growth of the economy and the total overheating in 1988. It is therefore not possible for macroeconomic regulation and control to adopt anything similar to the "emergency brake" method of 1988. The measures to be adopted now to relax the inflationary pressure must rather be otherwise appropriate, namely measures that will control the scale of investments in fixed assets, that will direct investments toward upgrading industry, and that will firmly control the two "sluice gates," the scale of credits being granted and the amount of currency put into circulation. Of course, at a time of rapid economic growth, it is not realistic to expect zero inflation, but a double digit inflation is more harm than benefit. We must reject the view that a high inflation rate is good to support rapid growth, and that a 10 to 20 percent rise in the commodity price index is not harmful, because an inflation at these rates will distort all kinds of relationships, land the economy in a dangerous macroeconomic imbalance, and add to the huge obstacles to any deepening of the reform. It is therefore necessary to adopt mainly economic measures, effectively carry out reform measures, strengthen the power of macroeconomic regulation and control, and put a stop to the serious

currency inflation. These, then, are the matters of greatest urgency to be attended to in the field of economics.

Three Checkpoints Have To Be Firmly Controlled To Extricate the Economy From Overheating

Ma Bin [7456 6333], advisor, Center for Development and Research of the State Council

Whether we analyze the nature of the economy or do a quantitative analysis, the fact is that the economy is at present already overheated. Now it is only the question, when lowering the economic temperature, how to avoid going about it in the method of "cutting everything with one and the same knife." The trend of the future economic development depends primarily on what particular measures we shall decide to adopt.

In the present rapid growth of the economy, there are three major flaws:

1) Inflation in capital construction. 2) Chaotic conditions in the financial circulation system. 3) The serious extent of the prevailing corruption.

For each of the three, there are particular reasons, but they also affect one another, and that makes for an even more complex situation and makes it the more necessary to find a remedy that is of a comprehensive nature.

Among the mentioned three problems, the breakthrough point must be action against corruption. Corruption is a phenomenon that appears in a great many places, but it is most conspicuous in the financial circulation system. Action against corruption must comprise straightening out financial affairs and deepening the financial reform, and then, in order to implement socialist market economy, also establishing a powerful and effective system of macro-regulation and control of all financial activities. This is one point; the second point is action against the "trading power for private benefits," action against graft and waste, and initiating honest and clean government and construction. These actions would stop the continuous outflow and loss of the nation's wealth, and would also "increase income and limit expenditure," while ensuring key construction projects and avoiding drastic trimming and a large downdrift of the economy. As to the third point, the huge amounts of money involved go into the pockets of economic criminals, as they trade power for private benefits. Although that money is found in no accounts ledgers, the amounts stand clearly out in the eyes of the common people. Successful action against corruption will soothe the resentful awareness of the lopsided gap between rich and poor, will allay anxieties among foreign firms, that are engaged in business operations, as to the investment climate here, as it will also spur on and maintain the enthusiasm of all honest workers.

The several economic readjustments of the past under the system of planned economy directly resorted to a method of "cutting everything with one and the same

knife," and adjusted by drastic reduction of all capital construction projects. Under the system of planned commodity economy, the "double-retrenchment policy" was carried out, which was still a "cutting with one knife," indirectly applied to all capital construction. The result was an enforced large downdrift of the economy, trimming even those "bottleneck" [essential] projects which should have been continued in the interest of strengthening economic construction. This time, under the system of socialist market economy, we must mainly rely on macroeconomic regulation and control of the money market, such as prompt control of the currency supply and control of credits granted; we must put a stop to the indiscriminate raising and borrowing of capital, in order to adjust the economic structure. Thus, it is necessary during this present readjustment to rely on action against corruption and on rectifying the money market.

There have been initial successes in fighting corruption, in rectification of the money market, and in eliminating the payments to the peasants by IOUs. The CPC Central Committee and the State Council have now also resolutely suppressed scores of irrational and excessive burdens on the peasants, thereby raising the level of disposable income of the peasants, reviving the consumer goods market in the rural areas, mobilizing peasant enthusiasm for agricultural production, and ensuring social stability in the rural areas. Reform in the urban areas should gain enlightenment from these actions. The common people are bitterly set against trading power for personal benefits and unfair competition, but it is only by improving reform and establishing a socialist market economy, that we will be able to overcome the need to seek new taxes and to have the economy grow at an appropriate pace in a continuous, stable, and highly efficient manner.

One Must Not Resort To "Pulling the Emergency Brake"

Yang Qixian [2799 0796 0341], vice chairman, State Commission for Restructuring of the Economic System

Opinions differ widely as to the assessment of the present economic situation and as to measures to cope with this situation. Some believe that the overheating of the economy, which started this year, is in every respect worse than 1988, and that drastic measures of retrenchment must be adopted. There are also others who believe that, although there is indeed overheating, and that certain remedies are required to alleviate the situation, there remains no need to ultimately "pull the emergency brake." In particular since this is a time of shifting from the old to a new system, it is a time of considerable complexity, and methods of resolving the problems are also exceeding the scope of our past experiences, we therefore have to proceed with great caution. Using again the method of "cutting everything with one and the same knife" in renewed administrative retrenchments could lead to another drastic downdrift in the economy, with a further steep decline in revenues, and even greater

and more serious difficulties in matters of unemployment and public finance. I basically agree with the latter view, and furthermore conclude, from a comprehensive analysis of the scale of fixed asset investments, commodity prices, etc., that it cannot very well be said that overheating has exceeded the state of affairs in 1988.

Let us first look at the scale of fixed asset investments. If these can be controlled this year to a generally estimated 950 to 100 billion yuan, deducting such factors as value increases and foreign capital increases, the actual growth rate would be between 10 to 15 percent, which is only equivalent to, or slightly higher than the growth rate of the gross national product, and therefore still within acceptable limits. The problem is mainly the irrational investment structure and the excessively long battle line; these are the things that need serious readjustments.

Let us again look at the commodity price index. From January to May this year, the increase in the entire country's consumer price index was 9.6 percent. In this figure, the increase in the urban cost of living index was a two-digit figure, in the large- and medium-sized cities even as high as 15 percent, indeed much higher than in the previous few years. However, we also need to see that there had been a great acceleration of price reform. This factor will probably account for an increase of 50 to 70 percent of the commodity prices during the last two years. Because the proportion of increases in the price indices which are brought about by the supply-demand imbalance is by far smaller than the above-mentioned figures, it is still not yet possible to say that a serious currency inflation is occurring. Since we still have a supply-demand balance or surplus-supply situation for over 95 percent of all consumer goods, there is little likelihood that consumer prices will register general large increases.

The large rise in prices for means of production is due to a tight supply-demand situation and partly due to man-made factors. For instance, the doubling of prices in the last few years for steel used for capital construction was actually brought about by the absence of good market regulations and the resulting "the shorter the supply, the more panic buying, and the more panic buying, the shorter the supply."

[6 July 93 p 1]

[Text] **Seize the Opportunity for Control, Don't Backslide**

Qiu Xiaohua [6726 2556 5478], deputy head, Coordinating Affairs Department, State Statistics Bureau

Looking at the trends, we see that China's economy experienced a depression in 1989, came out of the depression in 1990, regained growth in 1991, accelerated its growth in 1992, and is, from this year on, gradually entering a period of economic boom. In an overall perspective, there are signs beginning to show that a peak level has been reached, and that after a certain period of time, an appropriate trend will set in. The two-digit figures for high-speed growth of the economy and the

two-digit figures for the monthly increases in market commodity prices indicate that China's macroeconomic regulation and control has reached a critical phase. If regulation and control is properly exercised, it is possibly to sustain a high-speed growth of the economy, while keeping commodity price increases within limits that will be acceptable to all. However, if regulation and control are inadequate, economic growth could immediately decline from high-speed to a low-speed growth, while commodity prices would remain immutably high and at a level that will then be generally unacceptable. The crucial question now is to firmly seize the opportunity for and support the impetus toward macroeconomic regulation and control. Attention must be paid, in order to prevent a recurrence of an excessively rapid growth, to avoiding piling government policy effects on top of seasonal economic effects. Of course, we must also prevent it that accelerated economic growth be provoked by man-made factors, which would ultimately only end in a "crash landing," and, as a consequence, result in huge losses to the economy.

Looking at the present macroeconomic regulation and control as it is meeting the needs of the time, we see that China's economy, in a clear contrast to most of the countries of the world who lack the strength to make a recovery, is still full of vitality. If only all quarters will reach a common understanding and common concept, it is absolutely possible to further increase the drive that has appeared in China's economy; and, through controls, reduce all problems to a minimum. We must fully appreciate and cherish the present enthusiasm among all quarters for acceleration of development, and must, under no circumstances, allow the opportunity for rapid development to pass us by too early, because of preoccupation with the solution of problems. At the same time we must also not be indifferent to problems or allow things to drift. We have to realize that the stability in the Chinese economy, our ability to effect our own readjustments, and our methods of preserving the reservoir of our various resources are all quite different from several years ago. It is therefore imperative that the necessary macroeconomic regulation and control consider primarily economic measures and legislative measures, seize the opportunity, and aim at solving the deep-rooted contradictions.

Viewed from the standpoint of inert strength in the economic drive, the various types of problems in the present economic life are still within the scope of problems that macroeconomic regulation and control can in effect regulate and control. There is no need for "unduly excessive" measures such as "pulling the emergency brake." We must rather continue to do some fine tuning. On the one hand, we must gain a firm grip on the problem of accelerating investments in fixed assets, must appropriately control investments in the manufacturing and processing industries, as well as in the construction of high-rise buildings, auditoriums, guest houses, and hostels. We must ensure the requirements of such "bottleneck" [essential] industries as transportation, communications, and energy supply. On the other hand, we

must gain a firm grip on the problem of the disorderly state of the money market, which must be strictly straightened out according to the principles of market economy, and must urgently foster money markets and promote the rational flow of capital. We must pay particular attention to the proper coordination of the measures of fine tuning with the measures of our economic reform, must avoid treating outer symptoms and leaving the underlying causes untreated, which in the end would lead to economic instability.

Relaxing Financial Restraints, Maintaining Economic Growth

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It is very difficult to make a general assessment, with the presently available data, as to whether the course of Chinese economic activities during the second half of the year will show that the excellent growth rate can be maintained, or whether larger problems will arise. The crucial point that will be decisive for the economic trend in the second half of the year is whether we shall have moved on in the reform to an appreciably large extent, and whether we shall have effectively dealt with the problem of currency and economic order. It is therefore necessary to seize the opportunity to deepen the reform, and in the reform to strive for highest effectiveness of developments; we must under no circumstances direct our entire attention to adjustments that will merely alleviate the symptoms.

Whether it will be possible to maintain the very high economic growth rate in the second half of the year will mainly depend on restraints on demand and on financial restraints. Let us first look at the restraints on demand. On the one hand, we must ensure that there is no continuously rising demand for higher quality food, clothing, and user goods; on the other hand, we have to develop demand for the "three new-style things" (private houses, private small cars, private communication equipment). For this purpose we must as quickly as possible improve the economic structure through the reform of the ownership system, promote demand for higher quality in daily life requirements, and also accelerate reform in the social welfare system, with regard to housing and other matters, must ensure normal increase in the new final demand sector, so as to provide the economic growth rate with a reliable guarantee in the demand sector.

Secondly, as to the financial restraints. Here the crucial point is the reform of the banking system and of the interest rate mechanism, so that the limited amount of available funds be introduced into the areas of normal production at normal interest rates and through effective channels in the order of greatest importance. Presently too much money goes into the real estate and share markets, where it infiltrates everywhere indiscriminately, on the one hand, aggravating the chaotic state of these markets, causing wild price increases for real estate

and foreign exchange, causing currency inflation, and adding to the seriousness of all these problems. As a consequence, the shortage of funds for areas of regular production is getting worse by the day. On the other hand, when these funds from the areas of speculative activities with their high interest rates enter the areas of regular production, the areas of regular production cannot possibly absorb them. They will then, by way of costs, add the high interest to the prices, making costs drive up prices, and ultimately have the higher costs to the entire society spur on currency inflation. It is therefore necessary to accelerate reform of the money market, straighten out the real estate and foreign exchange market, and free up funds for these systems—systems which are not yet on a sound basis and which have a strong speculative nature—and allow these funds to flow in a normal way into areas of production. At the same time, we must accelerate the reform of the areas of public finance and of investments, raise the efficiency of fund uses, and, through the highly efficient use of funds, relieve the undue shortage of funds in the area of production. These are urgently needed tasks in order to maintain the high-speed growth of the economy.

Guidance of the Direction of Capital Investments Will Kill Three Birds With One Stone

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Since the last quarter of last year, in the wake of the rapid growth of the economy, the overall level of commodity prices in China has evidently risen and has made a serious currency inflation more likely, while it also constitutes a threat to the further rapid growth of China's economy. To avoid large economic fluctuations and ensure that the state of the economy reach new and higher levels, the principal aim of macroeconomic regulation and control must presently be to ensure a basically balanced state of supply and demand, stability of commodity prices, and avoiding a serious currency inflation.

During the first half of this year, with the cause-and-effect relation of dramatic increase in demand for investment funds and loss of control over the money market and currency, and on the basis of a 12.8 percent economic growth rate for last year, the nation's economy has rapidly developed further, around 14 percent for the first half of the year. The result was more aggravation of the restraints on such "bottleneck" [essential] areas as communication, transportation, etc., and further shortages of energy supplies and raw materials, i.e. areas which had already experienced tightness last year. In the supply and demand situation, there was last year a disparity in the total social demand-supply situation, as supplies were by 6.7 percent short of demand. For this year it is forecast that the disparity will grow to over 8 percent. According to initial forecasts, the various factors for inflationary pressure have this year already risen from last year's 10 percent to 18 percent.

At present there are three factors that affect the rise in the general level of China's commodity prices:

1) Planned adjustment of the former irrational commodity price structure. 2) Early and rapid increases in labor costs within a certain period of time. 3) Total social demand exceeding total supply capabilities.

The above-mentioned increases in commodity prices, caused by the price reform and rising costs, were all commodity price increases that can be attributed to the supply side, but they could not be sustained if not supported by demand, and would then also not have been able to cause a serious currency inflation. In the course of reform, increases in the level of commodity prices caused by these two factors are unavoidable; it is the necessary price to pay. However, the crucial point is the need to control the inflation of total social demand and the unduly large issue of currency. According to initial computations, if this year's new cash release can be controlled to within around 100 billion yuan, it would be possible to control the rise of the social retail price index to 10 percent. However, as things are presently, half of the year having already passed, to achieve this objective is extremely difficult, or, we may even say, already impossible.

To sum up, in the present macroeconomic regulation and control, our efforts must be directed to:

1) Most strictly controlling extended credits being extended and of currency being issued. 2) Adjusting the investment structure and restricting undue expansion of investments. 3) Effective guidance of the investment activities of the citizens, so as to keep private funds from going to an excessive amount into the consumer goods market during the second half of the year.

A better alternative would be: energetically absorbing private funds and investing them fully in capital construction. This would make it possible to maintain the still very high economic growth rate and also to avoid a serious currency inflation. It would at the same time lay a foundation for the future high-speed development of the economy. If this were done effectively, it would amount to "killing three birds with one stone." Of course, strengthening agriculture and exports are also important tasks in the interest of stabilizing the present economy, tasks that must not be treated lightly.

PROVINCIAL

Hunan To Uphold Production Plan Despite Flood

93CE0807B Changsha HUNAN RIBAO in Chinese
11 Aug 93 p 1

[Text] The Hunan provincial government held a telephone conference on the evening of 10 August, urging the masses throughout the province to pay close attention to disaster relief work and strive to accomplish this year's industrial and agricultural production plans.

The conference started with a most up-to-date report on the province's flood condition. Up to now, 108 counties, cities, and prefectures in the province have been consecutively struck; the afflicted crop area has reached 36.07 million mu; and a large number of urban industrial and mining enterprises have also been severely impacted, with a direct economic cost totaling 9.086 billion yuan.

To do even better the next stage of disaster control and relief work, and to accomplish this year's industrial and agricultural production plans, Governor Chen Bangzhu pointed out that every locality should rouse itself up and strengthen confidence and resolution in doing well disaster control and relief work. Although at present the province is facing a severe flood problem and daunting disaster control and relief tasks, many favorable conditions exist: the party Central Committee and the State Council have paid due attention to the province's disaster condition; the concerned ministries and commissions of the central government have provided financial and material support; and many sectors of society have stretched out the hand of friendship. At the same time, it is worth noting that there are many factors which may contribute to an increase in agricultural production and yield, and that this year's agricultural structure reform has seen new progress. As long as pessimistic sentiment is subdued and confidence strengthened, an all-around victory in the disaster control and relief can be secured. To reduce the loss caused by the disasters, every locality should motivate and rely on the masses, develop new means of production, and vigorously provide for and help themselves by engaging in production. At present, the critical period for autumn agricultural production has arrived. Thus, every locality should steadfastly pay close attention to the production of late rice, striving to realize the grain production goal of 25 billion kilograms per annum; should carefully oversee the cultivation of cash crops, including cotton, sugarcane, and tangerines, and adopt practical field management tactics, thereby increasing crop yields; should pay close attention to autumn and winter plantation work, utilizing the flood-depleted wet rice farmland and vacant fields for immediate planting of late autumn dry crops and vegetables; and should pay close attention to the development of aquaculture. Every locality should pay close attention to the above tasks and implement them as an important measure for disaster relief and famine evasion. This year, Hunan Province's industrial production and tertiary industry maintained steady growth. Every locality should further adopt competent measures and strive to materialize the goals of an annual production growth rate of 14 percent by all enterprises at the township level and above as well as total production output of 70 billion by township enterprises. Earlier this year, flood disasters resulted in losses for industrial production and tertiary industry. Thus, at present it is imperative that the afflicted industrial enterprises be examined, repaired, and promptly put into normal operation; and that afflicted commercial enterprises immediately resume operations.

To ensure implementation of the above measures, Governor Chen Bangzhu stressed that every locality should be carefully organized, reinforce the administration and management of flood control, flood relief, and production recovery work; and that all levels of officials and departments must do more solid work for the masses, pragmatically carry out the work of lightening the peasant's burden, and strive to achieve an all-around victory in disaster control and relief work.

Provincial party committee member as well as Vice-Governor Chu Bo also addressed the conference.

Hunan Commits to Rehabilitation of Flood Victims

93CE0807A Changsha HUNAN RIBAO in Chinese
9 Aug 93 p 1

[Text] Hunan Provincial Party Committee Secretary Xiong Qingquan and Governor Chen Bangzhu stressed in the provincial standing committee's seminar on flood control and relief on the afternoon of 7 August that the masses should carry forward a spirit of industriousness and thrift and energetically help the flood victims achieve self-reliance, resume production, and rebuild their homeland.

Since this year's flood season, a wave of storms have swept through Hunan Province's four rivers—the Xiang, Zi, Yuan, and Li, as well as the Dongting Lake area. Rampant torrents of water have rushed down the mountains, touching off a series of flood disasters. The raining, flooding and disaster conditions are unprecedented. From April to July, the province-wide average precipitation was 858.7 millimeters, a 118 percent increase over that of previous years in the same period; notably, July's precipitation increased by 244 percent over previous years in the same period. Unceasing storms have triggered four gigantic floods, and water marks have surpassed warning levels by 0.01 to 3.03 meters at major control stations of the Xiang, Yuan, and Li rivers, as well as the lake area. The largest affected area, including 25 counties and cities within the three lake prefectures as well as the state farm, exceeded four million mu, 50 percent of the arable lands.

Successive flood disasters have caused great losses for Hunan Province. According to incomplete estimates, the province's direct economic loss has exceeded seven billion yuan.

The masses' loss of life and property was huge. The affected area included 14 prefectures, 108 counties and cities, 2,996 towns, and 43,472 villages, of which more than 30 towns were in water. The affected population has exceeded 46 million, with 286 casualties, over 1.4 million stranded, and 576,500 hurriedly relocated. Over 370,000 houses collapsed and over 1.26 million houses were damaged, resulting in more than 160,000 homeless people. Over 270,000 heads of cattle were swept away or smashed to death, and more than 330,000 tons of grain were lost. In places where banks and dikes were

destroyed by mountain torrents, entire villages and human properties were swallowed up.

Agricultural production suffered severely. According to incomplete estimates, the total affected crop area in the province exceeded 36 million mu, of which more than 24 million mu was severely afflicted and more than 8 million mu was lost to harvest. Arable land of 1.87 million mu was devastated, more than 1.5 million mu of freshwater fish-farming fields were lost, and more than 40,000 tons of fish were destroyed.

Basic water conservancy, hydroelectric power, transportation, and telecommunication facilities were ruined. In Hunan, 86 large- and medium-sized reservoirs, irrigation networks, large- and medium-range turbine-pump stations, as well as irrigation and drainage pumping stations were damaged, and 455 small reservoirs severely so. Dam dikes were breached at nearly 40,000 places, and 2,889 hydroelectric and electrical pump stations, as well as 3,987 aqueducts and sluices were damaged. There were more than 14,000 breaches in river dikes and the total length of the breaches reached 396 kilometers. More than 18,000 kilometers of river dike were damaged. The Zhi-Liu Railway was interrupted for 12 hours due to landslides within the city limits of Yongshun and Dayong. Telecommunications in Yongshun and Sangzhi were suspended for 34 and 50 hours respectively. More importantly, the province's remotest and poorest regions were the first to be stricken by the disasters, resulting in great losses and adding further misery to these economically underdeveloped regions.

Facing severe flood disasters, cadres and the masses have demonstrated dauntless heroism: All levels of party and government officials provided on-the-spot guidance; 200,000 cadres and three million citizens struggled at the front line, fighting against disasters and providing disaster relief; every nationality was firmly united and worked together; and there has emerged a group of selfless, fearless, progressive models, greatly reducing the losses caused by the disasters. Nonetheless, the severe natural disasters were beyond the means of human control and every locality still faces formidable relief tasks. Accordingly, comrades Xiong Qingquan and Chen Bangzhu ordered that each locality carefully perform the following tasks.

First, the flood victims' living situation should be properly settled. The top priority is to provide basic grain rations, living quarters, and winter clothing to those heavily afflicted households. Neighbors helping neighbors, relatives helping relatives, less affected households helping severely affected households, and helping and sharing common hardships with each other should be encouraged. Civil administration departments should lay stress on the key points in aid distribution, avoiding simplistic equalitarianism. We should guarantee through solid work that nobody dies from hunger or frost, and prevent the occurrence of epidemics from the disasters.

Second, the spirit of "humans overcoming nature" should be established and the masses should be organized to provide for and help themselves through production. All levels of leadership should arouse themselves, overcome "always looking to the higher authorities", enter the disaster areas, go into the midst of the common people to do arduous and fastidious work, rely on the guidance of all levels of party leadership, rely on collective force, rely on the masses' spirit of self-reliance and hardwork, and rely on the development of the market economy to subdue the severe afflictions caused by the floods. Remedial measures are the key to revitalizing agriculture: The loss of early rice can be patched up by late rice; the loss of wet fields can be made up by dry fields; the loss of agriculture can be mended by industry and side businesses. In particular, large-scale planting of autumn and winter crops should be implemented, the controlled cultivation of late rice and cotton should be strengthened, and severely damaged farmlands should be decisively transformed for the planting of other crops, thus striving to earn back the losses caused by the disasters. Financial departments should use every conceivable strategy to raise relief funds, and ensure timely distribution of relief loans, thereby helping afflicted industrial, mining, and commercial enterprises revitalize production and business operations promptly.

Third, we should quickly resume reconstruction projects on the basic infrastructures of irrigation, transportation, and telecommunication. The masses in the flood area should be organized to immediately participate in rehabilitation work and rapidly rebuild damaged dams, reservoirs, and country roads. We should also soon reconstruct large- and medium-sized water conservancy facilities through the combined efforts of state investment, collective fund-raising, and individual labor input. Meanwhile, flood control work should be thoroughly strengthened, thus gradually enhancing the ability to resist disasters. Transportation, water conservancy, water and electricity as well as post and telecommunications departments should provide full funding and material support to the disaster-ridden people so that they can resume reconstruction projects.

Fourth, frugality should be encouraged and kindness toward others should be practiced. The tradition teaching those "born in predicament to die in happiness" should be borne in mind and the fight against disasters and disaster relief work should be regarded as an impetus for Hunan's citizens to increase production and saving and to expedite reform and reconstruction. As called for by the provincial party committee, all departments should empathize with the disaster victims and meet their needs, should "save up every penny to help the victims," and should pragmatically carry out relief supply work. To minimize expenditures, all localities and departments should strive to abide by austerity measures, strictly control festival and ceremonial activities, firmly restrict going to other provinces or going abroad for visits and investigation, and refrain from purchasing automobiles and luxurious commodities. At

the same time, donation work should be launched within all party and government bodies, industrial and mining enterprises, institutions and schools, and on the streets. Provincial party standing committee members and vice-governors should each donate two months' salaries to flood victims.

At the seminar, comrades Xiong Qingquan and Chen Bangzhu also emphasized that although the province has achieved great progress in flood control and flood relief, the work should not be relaxed; mental preparation should be further strengthened to anticipate greater floods, more floods, and prolonged floods; and all should be united together, share comforts and hardships, and painstakingly struggle to the end, striving to achieve an all-around victory in this year's flood control and relief work. In the struggle against the severe natural disasters, everyone should go all out to make the country strong, striving to accelerate the province's reform and reconstruction pace.

FINANCE, BANKING

Shanghai as Largest Gold Market

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[Article by Chou Ting (0719 0002): "Shanghai: Mainland China's Largest Gold Market"]

[Text] While Shanghai ranked as the Far East's largest gold market as long ago as the 1920s, it was only after subsequent monetary reform and the Cultural Revolution that private gold holdings fell sharply. But beginning in the 1980s, the state's opening up of gold sales quickly warmed up Shanghai's gold fever.

Shanghai's gold market has been brisk in recent years.

Shanghai's silverware shops, gold centers, and handicraft stores sell a billion yuan worth of gold jewelry a year, weighing 10 tons of gold.

Nothing in the whole world is more popular and alluring than glittering gold. As gold = good fortune + luck + wealth, and "gold from ancient shrines brings good luck," there is no hesitation in replacing (lucky) red shop signs with gold ones, and a new commercial building on Huaihai Road is actually named Gold World. Shanghai's love of gold is so strong that it is unbearable for them to recall the events of two decades ago when they were forced to throw their gold into garbage cans during house-by-house searches and confiscation.

Shanghai began to flash its gold again in the early 1980s when the ban on gold jewelry sales was lifted. In the past decade, more and more gold centers have opened up, with the wearing of gold jewelry by both women and men becoming increasingly widespread, so that a magnificent scene has appeared of gold and humans traveling

together. Such a scene has not come easily, as it means that values and lifestyles have had to undergo decisive changes.

When counting up our family treasures, it can be seen that Shanghai had ranked as the Far East's largest gold market as far back as the 1920s, concentrating the great wealth of the Chang Jiang (Yangtze River) Delta and its periphery, with very abundant private gold holdings. In the late 1940s, severe inflation brought brisk gold and silver circulation. Large 10-tael bars and small 1-tael ones were commonly known as "large yellow fish" and "small yellow fish." Chiang Kai-shek's 1948 monetary reform exchanged gold dollar certificates for gold, in one month cheating Shanghanese out of 35 tons of gold, or more than 110,000 large bars. But this was only a part of Shanghai's mountain of gold. When the KMT collapsed, wealth in the form of gold and silver flowed abroad in huge amounts. Then during the Cultural Revolution in the 1960s, another large amount of gold was swept from private hands. Such cleanouts sharply reduced the private gold holdings of Shanghainese.

In the 1980s, once gold jewelry sales were opened up, the gold fever very quickly warmed up. Reviewing the situation a decade later, it can be seen that Shanghai has reacquired its leading position in the mainland China gold market.

Shanghai Has 120 Gold Shops

In recent years, dozens of gold jewelry firms have grown out of old shops and "ancient temple gold" handicraft stores, with 120 gold shops now being in licensed operation, branches scattered throughout Shanghai proper, and daily sales averaging about 3 million yuan. Shanghainese buy an average of 0.77 grams of gold jewelry a year per capita, or almost five times the national average of 0.16 grams.

Foreign Gold Jewelry Is in Vogue

Respect, splendor, and gravity are the aesthetic values of gold. Signs of gold body-packaging are becoming fashionable again in Shanghai after four decades. The older generation admires the younger generation's investment in gold which, unlike other commodities, maintains its value across time and space. The gold fever has been led by young women, with young men keeping up to bring along the middle-aged and elderly, and even children taking part in gold sales recently.

From single pieces to sets of necklaces, wrist and ankle bracelets, earrings, rings, pins, and chains, all sorts of precious inlays and new varieties are becoming fashionable. While Shanghai-made jewelry was all the fashion at first, Hong Kong-style jewelry broke into the market later, competing in craft and quality, and then even products made in Fujian, Jiangxi, and Zhejiang poured in. Shanghai has established China's first and only jewelry research institute, which recently opened the Jialong Silver Building on Nanjing Road, as a window for new foreign jewelry.

Innovative gold techniques of making exquisite jewelry are even more in vogue. Four grams of 18-k gold can make a necklace and wrist and ankle bracelet set, selling for no more than 500 yuan, which a young woman can afford with a month or two of economies. The gold jewelry coverage has grown even faster recently.

Shanghai has produced a not too shabby high-consumer strata in recent years, whose annual incomes top \$5,000, and to whom the gold world belongs. In an orderly succession based on consumer strata and lifestyle, gold jewelry has risen through three waves, the first being solid gold jewelry, the second inlaid gold jewelry, and the third diamond-studded gold jewelry. In the last decade, Shanghai's gold jewelry sales, plus consumer-imported manufactures and gifts from overseas friends, could not have amounted to less than 100 tons of gold. Jewelry gold is maturing just like a growing child. As social economists put the contemporary living-standard minimum at a \$1,000 average income, the fondness of Shanghainese for jewelry will reach a new level when that point is reached. This new level will be characterized by a general search for consumer quality.

Secret Gold Channels

When Shanghai opened up its gold jewelry market, while family gold holdings were its major source, they were not the only one, with others being overseas, private commercial, and covert gold channels.

For instance, gifts from friends in Taiwan are another source. Since the ban on private intercourse across the Taiwan strait was lifted, these gifts have changed from household appliances to gold and hard currency.

Ms C represented her mother and four mainland siblings in going to Tokyo for a reunion with her father. Her elderly father was a technology official in Taiwan, who had left home when his children were young, leaving his wife to raise them alone. When he saw that his eldest daughter was already middle-aged, he sobbed about the painful decades of not being able to fulfill his paternal duties. But he had already divided his assets into two shares, one for his new family in Taiwan, and the other in gold and U.S. dollars for his daughter representing his old mainland family.

As Taiwan has more than 2 million mainlanders, such incidents are certainly not rare.

Private commercial channels include domestic and foreign channels. Shatoujiao, Shenzhen is the most typical, where a gold fever arose in 1988, with Zhongying Street having up to 100 gold shops, or more than Shanghai at the time. Shatoujiao's hundred gold shops brought 40 tons of gold into Mainland China in one year. In 1988, China was experiencing severe inflation with skyrocketing prices, so that gold became a precious sought-after commodity in the midst of expanding consumption. Large amounts of gold jewelry that were fashionable in Hong Kong flowed into Shanghai's gold market, pushing Shanghai's 1988 gold jewelry sales up more than 280

percent over 1987. The large inflow of gold through Shatoujiao included not only gold jewelry, but also gold bars, gold bullion, gold sheets, and gold ingots.

So-called secret gold channels refer to smuggling and underground business. From the Northwest to the coast, there is an outflow pipeline, and from the coast to the interior, there is an inflow pipeline. Mainland China practices a policy of state monopoly for the sale of gold in which, while individuals are allowed to own gold, they are prohibited from buying or selling it privately or taking it out of the country. So the state's current opening up of one-way gold jewelry sales is a special operation, setting prices for handicrafts, not for financial commodities.

As to Shanghai's gold jewelry sales, demand is growing yearly at a rate of 15 percent for varieties such as bracelets, necklaces and earrings. If Shanghainese were to invest 10 percent of their 30 billion yuan of savings deposits in gold, this would be enough purchasing power for 30 tons of gold. Shanghai's gold jewelry manufacturers also would find it difficult to meet such demand. But current manufacturing capability is certainly not in full operation and, as state matching funds do not meet needs, the market needs jewelry from other provinces and municipalities to meet demand.

The gap between gold supply and demand is caused by Mainland China's gold industry size. The State Gold Bureau has announced that it is going to make the 1990s an age of gold industry development, by starting 138 projects in the next five years. By the end of 1995, it will have 19 mines with yearly output topping 1 ton of gold, and six smelting plants with annual output capacity of more than 100,000 liang (50 grams) of gold. But even if it completes all of this plan, it will still be out of proportion for the world's most populous country, with a gold scarcity still existing.

This scarcity involves an absolute output scarcity, as well as a policy one. A one-way-only sale of finished products, with sales of the new but no taking in of the old, leaves gold generally tied up in private hands. A market with a zero circulation rate will ultimately miss its chance for expanded circulation.

The Prices Created by One-Way Gold Circulation

The crux of this problem is the price of gold. Gold jewelry sales on Shanghai's market occur according to a centralized list price, with the price per gram at 115 yuan for 9,999-pure gold [as published], 114.9 yuan for 999-pure gold, and 86.3 yuan for 18-karat gold. These gold prices are absolutely divorced from world gold-market prices. A concerned party explains to consumers that gold jewelry is sold at set prices as a handicraft item, so that high-priced sales make it impossible to recover gold at rationally-set business price differentials.

For decades, private gold has been redeemed by state banks at a centrally-marked price per gram, with Shanghai branches of the Industrial and Commercial

Bank of China (ICBOC) having redemption points in all districts. These redemption prices often do not change for years, so are far removed from the international market, as well as from Mainland China's prices and economic setting. On 1 January 1989, the official redemption price per gram was raised from 32 yuan to 48 yuan (equivalent to raising the market-liang (50 grams) in the 16-liang system from 1,000 yuan to 1,500 yuan). This redemption price has been maintained for over 4 years now, while the sales price has reached 115 yuan, making for quite a gap. State banks sell industrial-use gold at prices set by usage, the minimum being 63.4 yuan a gram, or still 32 percent higher than the state redemption price.

At this rate, Mainland China's gold-redemption price is only 36 percent of the international-market gold price, while gold jewelry sales prices are 140 percent higher than the official redemption price. Low import prices and high sales prices keep private gold holdings out of the market, with bank redemption points few and far between, blocking up a key supply source. So private gold holdings are tied up beyond imagining. International gold circles criticize China's gold market as being unfathomable. It is thus obvious that only one party, either buyers or sellers, cannot form a market climate.

Two Gold-Buying Fevers

Shanghai's gold fever is more accurately called a jewelry fever, as the gold fever is still in a potential state. In 1992, The Shanghai Municipal Consumer Association and the Ancient Temple Handicraft Shop jointly held a gold and mounted jewelry advisory service week, during which they polled tens of thousands of customers, finding that 81 percent of gold jewelry purchases were aimed at beautiful ornaments, while only 31 percent of customers had a value-preservation mindset. In contrast to similar polls in previous years, the value-preservation mindset was down sharply.

Looking back in time to 1985 and 1988, it can be seen that Shanghai has experienced two waves of panic-buying of gold jewelry. These were closely tied to the general economic setting. Around both 1985 and 1988, the two investment expansions were followed by simultaneous credit expansion and inflation, producing a strong value-preservation mindset among residents of "commodities are better than cash, and gold is better than commodities," and touching off a wave of commodity panic-buying headed by gold jewelry.

While a high tide of investment occurred in 1992, the mindset of buying gold jewelry to preserve value certainly did not rise. This was because since 1991, markets, such as foreign exchange, bond, stock, and futures, had been established one after another, diversifying financial commodities, and expanding possible options for investment channels and asset-accumulation forms. So gold jewelry that could not be exchanged on markets was no longer the optimum asset-form option.

World Private Gold Holdings Are 23,000 Tons

Estimates are that Western Europe's private gold holdings are about 9,000 tons, Asia's are approximately 4,900 tons, and the world private gold holdings of more than 23,000 tons are two-thirds of the holdings of the governments and banking worlds of all countries. An International Gold Council survey shows that private holdings are characterized by most gold certainly not being concentrated in the hands of the wealthy, but rather being dispersed among the middle-income level. The rich and powerful do not want to tie up their funds in gold, but rather opt for more profitable local investments, while the middle-class aim is to preserve value.

This means that in addition to bars and bullion, the functional form of jewelry is the preferred holdings form for those with low and middle incomes, with jewelry gold actually being the smaller division favorable to buying and selling. The world gold jewelry market has an annual business turnover as high as \$50 billion. Estimates are that about one-half of yearly world gold output goes to the manufacture of gold jewelry, while the other half is made into gold bars or used in industry.

In all of human history, 90,000 tons of gold have been mined. While annual gold output was 950 tons in 1980, it was up to 2,600 tons just a dozen years later in 1992. As commodity value is based on scarcity, more gold will mean lower gold prices.

An Open Gold Market

The world now has five large gold markets in Zurich, London, New York, Chicago, and Hong Kong, with world-class gold jewelry markets in the U.S., Japan, Germany, France, Italy, Britain, and Switzerland, each forming its own school.

China, with its 1.1 billion population and tradition of cherishing gold, is the world's largest potential gold market. Taiwan's gold holdings rank fourth behind only the U.S., Japan, and Germany. In the decade ending in 1992, Taiwan imported 930 tons of gold, ranking its per capita holdings first in the world, with 1993 per capita consumption expected to reach 10 grams. World Gold Association statistics show that mainland China's 1992 gold consumption was 250 tons, making it Asia's largest customer.

Gold commercialization and privatization are a common trend occurring on a worldwide scale. So private gold-holding has become a common economic phenomenon in comfortably well-off and wealthy societies.

A gradually opening gold market will not only acknowledge the already existing private gold circulation, but its focus will also include opening up a new world of capital flow, as well as being a more effective economic safeguard for those of low and middle incomes, ensuring their economic might, which will naturally aid in reaching China's intermediate goal of becoming comfortably well-off.

Mainland China now holds gold reserves of 400 tons. How much gold is held by Shanghainese is an as yet unrevealed secret. But the approximately 100 tons of gold jewelry that has flowed through commercial channels in the last decade shows a certain profile of a mountain of gold. With a fully open market economy, including an open gold market, free gold circulation is a fruit that will finally ripen.

FOREIGN TRADE, INVESTMENT

'Economic Circle' Trade With U.S. Discussed

93CE0831A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 138, 15 Jun 93 pp 7, 8

[Article by Zhou Shijian (0719 0013 0313) and Wang Lijun (3769 7787 6511) of Tianjin Foreign Trade College: "The Chinese Economic Circle and Its Economic and Trade Relations With the U.S."]

[Excerpt] [passage omitted] Viewed from the point of economic potential and speed of development, the 21st century will be a century for the Pacific. The Chinese economic circle [CEC] will enjoy the fastest development in this region. In the ten years to come, the CEC will not only be able to give impetus to the economic development in all of Asia, but will also promote the prosperity and development of the world economy. From research on the economic and trade relations between China and the United States, people will naturally notice that the CEC's trade with the United States will not only develop rapidly but also has tremendous potential. The following is a contrast of trade by the CEC, Canada, and Japan as opposed to the United States (U.S. Customs statistics):

	Total Trading with U.S.	Export	Import	Balance
				(unit: in \$100 million)
Canada	1890.5	984.9	905.6	79.3
Japan	1449.4	971.6	477.8	493.8
CEC	918.7	601.3	317.4	283.9

The CEC has become the third largest trading partner of the United States. Its trade volume of \$91.87 billion with the United States in 1992 accounted for 9.4 percent of its total trade volume of \$980.7 billion. Its export volume of \$60.1 billion

with the United States accounted for 11.3 percent of its total import volume of \$532.5 billion, whereas U.S. exports to the CEC amounted to \$31.7 billion, accounting for seven percent of its total export volume of \$448.2 billion.

The CEC enjoyed a favorable trade balance of \$28.4 billion with the United States, accounting for 33.7 percent of the \$84.3 billion U.S. foreign trade deficit for the year; this figure is only second to Japan (\$49.3 billion). Of this, mainland China's favorable trade balance with the United States was the greatest, amounting to \$18.3 billion. The United States, however, should make a comprehensive analysis of this surplus figure from the angle of the entire CEC. While the U.S. trade deficit increased with Mainland China, its trade deficits with Taiwan and Hong Kong were reduced. The reason is that Taiwan and Hong Kong attempted to transfer to the mainland labor-intensive enterprises such as low-tech products and processing industries, thus increasing Mainland China's exports of labor intensive products to the United States. Consequently, this share of trade surplus of the United States was transferred to Mainland China. Therefore, the United States should not look at its trade deficit with Mainland China in an isolated manner. Just like China's favorable trade balances with Mexico, Brazil, South Korea, and other countries, the CEC's trade surplus with the U.S. belongs to the labor-intensive daily life necessities of the people. It serves as a supplement to the U.S. economy. This is a necessary supplement to the readjustment of the U.S. industrial structures in the 1980s and 1990s and to the development of high-tech industrial structures. Its impact on the U.S. economy will be positive. In developing trade relations with the United States, the CEC can take advantage of the favorable conditions of various aspects within the circle, and employ others' strong points to offset its own shortcomings. Mainland China can use the funds, technology, and marketing networks of Hong Kong, Taiwan, and Macao, whereas Taiwan, Hong Kong, and Macao can use the mainland's manpower and material resources to make labor-intensive products to provide for overseas consumption, primarily for the U.S. market.

The growing strength of the CEC is likely to make the United States, in view of its own economic interests, improve its relations with the CEC. This presents a challenge to U.S. trade policies. China is an important market for U.S. farm products, computers, industrial machinery, chemical fertilizer, airplanes, and other commodities, and an ideal place for American enterprises to make direct overseas investment. China is furthering its reforms and opening to the outside world, its economic development is being accelerated, its people's level of consumption has been raised, and its import capacity has been strengthened. China is planning imports worth \$350-400 billion from 1991 to 1995, and the United States is prepared to grasp this opportunity to expand its trade with China. The widened opening of the Chinese market constitutes a powerful attraction for American enterprises. Investment by American enterprises in the CEC has been increasing daily. Quite a portion of the products from American-invested enterprises are resold on the U.S. market. This has promoted the development of the CEC's economic and trade relations with the United States. In the future the United States should not

treat the No. 1 trading partner within the Chinese circle in an isolated manner through bilateral relations, for any U.S. gains or losses in its trade policies against any side will affect its trade relations with the CEC. In 1992 the United States exported to China commodities worth \$900 million, creating 150,000 employment opportunities for the country. If the United States cancels China's most favored nation status, this will certainly limit its exports to China. On the one hand, this will exacerbate the issue of unemployment and affect the revival of the economy. On the other hand, it also will harm the interests of American investment in China, and the United States will encounter the risk of losing China as a huge market. Also, Hong Kong will suffer grave losses. According to estimates by the Hong Kong government, Hong Kong will face a loss of \$15.3-21.5 billion in trade. Its income will be reduced by \$2.1-3.0 billion and the loss of its entrepot trade will amount to \$8.57 billion. Taiwan will be affected as well. All this does not conform with U.S. interests. To sum up, the development of economic and trade relations between the CEC and the United States has broad prospects. Their bilateral trade volume is likely to catch up with that of Japan by the end of the century or by early next century. The CEC will become an extremely important trading partner with the United States. The CEC will make important contributions to promoting the prosperity of the Asian and Pacific region and the world economy.

FIEs' Rights Protection Issue Analyzed

93CE0794A Beijing ZHONGGUO MAOCU BAO
in Chinese 15, 22 Jul 93

[Article in two installments by Zhang Jiandong (1728 1696 2639): "An Inquiry Into Protection of Foreign-Invested Enterprise Rights"]

[15 Jul 93 p 2]

[Text] The 14th plenary session of the Communist Party of China clearly noted that the aim of reforming China's economic system is to establish and perfect a socialist market economy, in order to further spur on China's reforms and opening to the outside world, and bring into full play the superiority of the socialist system. "Foreign-invested enterprises" (FIEs), which have been field tests for the socialist market economic system, presently are developing by leaps and bounds. They have accumulated vast experience in establishing such a system. Concurrently, the issue of protecting the legal rights and interests of FIEs has attracted the serious interest of parties concerned. This article will try to explore the issue from the following angles.

I. Legal Basis for Protecting Legal Rights and Interests of FIEs

1. Proposal for FIEs' legal rights and interests. Since reforming and opening to the outside world, FIEs have spurred on China's economic development with their high labor productivity rates, high per capita interest profit rates, high foreign exchange earnings from export rates and high technology management levels. Since

Comrade Deng Xiaoping's speech on touring the south in 1992, the growth of FIEs has changed with each passing day: from the SEZs and open coastal cities to the inland, from provincial cities and counties (regions) to countryside (town) farm villages. In line with China's further reforms and opening to the outside world and increased returns by all parties to FIEs, the development trend of FIEs has been on a larger scale, with increased investment and longer terms. At the same time, FIEs themselves have been neglected and encroachment upon the legal rights and interests of parties to joint ventures have been encroached upon. There is the phenomena of no laws to follow, misunderstanding the law, or not enacting it. Therefore, the issue of protecting the legal rights and interests of FIEs must be really put on the agenda in order to promote the healthy growth of FIEs and have them make a greater contribution to China's bounding economy.

2. Implications of legal rights and interests of FIEs and legal basis for their protection. The legal rights and interests of FIEs refers to the rights and responsibilities which they enjoy in the process of establishment, building infrastructure, production, business management, product marketing, cancelling or terminating contracts, liquidation of assets, and in investment, land usage, processing, business methods, distribution of returns, taxes, personnel management, environmental protection, foreign exchange, import and export management, freedom of personnel, seeking legal services and dispute arbitration. There shall be no encroachment by any organization or individual without a legal permit and according to legal order. FIEs also have the right to legally obtain or seek protection and actually be protected in the event of illegal encroachment. Promulgated and in effect for 10 years now, Article 18.2 of China's existing constitution clearly stipulates in this regard: "foreign enterprises and other foreign economic organizations, as well as Sino-foreign joint ventures within the borders of China must respect the laws of the People's Republic of China. Their legal rights and interests are protected by the laws of the People's Republic of China." Related laws and regulations such as Article 1 of China's Foreign Economic Contract Law, Article 2 of the Sino-Foreign Joint Venture Law and Article 2 of the detailed rules and regulations for its implementation, Article 1 of certain stipulations on investment by parties to Sino-foreign joint ventures, Article 1 of the Foreign Investment Enterprise Law, Article 3 of the Sino-Foreign Joint Venture Law, and Article 5 of the registration procedures for Sino-foreign joint ventures have similar stipulations from various perspectives on the basic law. Of the other rather formidable operating articles, some have stipulations regarding sanctions for certain hypothetical situations. In this way a preliminary legal system to protect the legal rights and interests of FIEs is formed, from the basic law to specific legal stipulations which constitute a legal system to protect the legal rights and interests of FIEs, creating an initial "hardware" base to protect the legal rights and interests of FIEs.

II. Theoretical Considerations in Protecting the Legal Rights and Interests of FIEs

1. Protecting the legal rights and interests of FIEs is one of the basic demands of the socialist market economy and the legal system economy. The report of the party's 14th plenary session noted: we must "continue to perfect the investment environment and provide more convenient conditions and fuller legal protection to foreign business investors." Although there is a "hardware" base to protect FIEs' legal rights and interests, it cannot fully attain the anticipated results. To make the hardware sufficiently hard, we must complement and strictly implement it. We need microeconomic controls as well as macroeconomic ones. These are obvious needs of the socialist market economy and the legal system economy. FIEs are formed by the demands of the market economy and develop according to market economy laws. Prices, competition and supply and demand relationships are the elements of a market economy. Their operation is regulated mainly by economic and legal measures. Thus, the market economy also is a legal system economy. It not only stipulates complex relationships of rights and responsibilities, fair competition and contract and deed trustworthiness among different economic entities, but also determines the state's macroeconomic readjustment and controls and a relative unanimity with international economic market regulations. The development and growth of FIEs are the forerunners of China's socialist market economy and at the same time a constituent part of China's socialist legal economy. FIE's legal rights and interests and protection thereof are stipulated by the laws of China and must be implemented according to the law.

2. Protecting the legal rights and interests of FIEs requires a soft environment suited to their existence and growth. Besides the complementary "hardware" protecting the legal rights and interests of FIEs, we also should have a soft environment suited to their establishment, existence and growth. Hardware itself cannot play a complete and independent role; the soft environment completes and complements it. This soft environment includes the following: treatment of foreign investors during pre-investment studies; the equal relationship and mutual understanding and respect of parties to negotiated projects and contracts; relative independence and self-determination in the process of production and business management once FIEs have been established; guarantees of a secure environment and personal freedom of foreign businessmen; the creditworthiness of parties investing to abide by contracts; respect for seeking legal services according to law; just and equal arbitration of disputes by parties to joint ventures; providing high quality and highly efficient legal protection and services to FIEs; striving to establish a highly civilized atmosphere and language environment for foreign investors.

[22 Jul 93 p 2]

[Text] 3. Dialectical unity regarding protecting the legal rights and interests of FIEs and investors. Protecting the

legal rights and interests of FIEs includes all the legal rights and interests of all FIEs as a whole as well as those of individual FIEs. It also includes the legal rights and interests of Chinese and foreign investors. The relationship between them is one of dialectical unity. Protecting the legal rights and interests of all FIEs as a whole is accomplished by hardware which stipulates a series of laws and regulations; protecting the legal rights and interests of particular FIEs, as well as protecting the legal rights and interests of Chinese and foreign investors, is accomplished mainly through thorough implementation of the hardware. It is accomplished by justly treating cases or redressing matters involving FIEs and departments of industry and commerce, taxes, customs, public security, investigations and the courts. Protecting legal rights and interests of all FIEs is of great significance for China's economic development. Protecting the legal rights and interests of particular FIEs embodies and individually determines the import of protection overall. Protecting the legal rights and interests of Chinese and foreign investors likewise is manifested as protecting the legal rights and interests of any party to a venture and restricting the illegal behavior of any other party to a venture. Regarding a particular FIE, there is a consensual aspect. Regarding the opposing investor, there is an antagonistic aspect. This is the dialectical unity of the issue of protecting the legal rights and interests of opposing parties within the same entity.

III. Major Issues Remaining Regarding Protecting the Legal Rights and Interests of FIEs and Objective Requirements for Their Resolution

1. Presently remaining major issues in protecting the legal rights and interests of FIEs. First, there are incomplete laws, an imperfect legal system and insufficient popularization and dissemination of foreign economic laws and regulations.

Regarding legislation, among the basic laws for FIEs which have been promulgated (the Sino-Foreign Joint Venture Law, the Sino-Foreign Cooperative Venture Law, and the FIE Law), two have articles of implementation. Articles of implementation for the Sino-Foreign Cooperative Venture Law have yet to come out. Chinese incur losses due to bankruptcies of FIEs. FIEs have incurred losses due to employee dismissals but they have been handled without laws to rely on. There still is no system of laws or regulations governing investigating the creditworthiness, equipment and technology of foreign investors.

Regarding administration, it is difficult to implement according to the law or realize according to contract. FIE's raw materials, energy supplies or transport supports. There is local administrative interference in the autonomy of FIE operation and management or collection of unreasonable apportionments which interferes with the normal production and operation of FIEs. To attract foreign investment, some areas compete to provide preferential land usage fees and squander the right to reduce taxes, causing fiscal losses to Chinese investors

and the state. All areas desire FIE projects yet little heed is paid to knowledge and popularization of foreign laws. Foreign economic laws and regulations remain blind spots to most enterprise managers.

Regarding foreign investors, a small number of them put little of their own funds on board and take advantage of loopholes in China's laws to seize funds from domestic banks and enterprises disguised as foreign exchange investments because of the weaknesses of incomplete relevant Chinese legislation, loose implementation. Chinese investor disregard of legal protection and unfamiliarity with international market conditions. Inferior technology and equipment inputs are disguised as good, quality is low but prices high. Product exports are overstocked at high prices. A few foreign businessmen in some areas of China take advantage of FIE projects since the hungry are not choosy about food. They swindle by utilizing preferential policies to play their hands, seeking higher foreign investment unilaterally, and then running off. A few foreign businessmen are insincere about cooperating and make overly harsh demands of the Chinese investment environment, asking for proof of investment ahead of time or they terminate contracts.

Regarding Chinese investors, some areas or enterprises are anxious to succeed so they draft and sign agreements without strict or careful study of the foreign investor's funds, technology, equipment or ability to conclude or overturn treaties. Their knowledge of the law is poor. They avoid legal services and neglect protecting their own legal rights and interests, believing that FIE contract documents are approved by the local government so they need not be notarized. They also believe it is unnecessary to ask an attorney to take part in investigating creditworthiness or project negotiations, that it is a waste of money. A sizeable portion of FIE managers lack knowledge about large modern markets and trends. They tend to revert to state-run enterprise management or collective management methods. Medium- and small-scale FIEs have been assimilated by traditional management methods from the planned economy era. Some Chinese FIE managers are accustomed to rule by individuals or authority rather than by law. They are apathetic or dependent regarding protecting their own legal rights and interests.

Another issue closely related to protecting the legal rights and interests of FIEs is that of the unsuitable soft environment. This is mainly seen in certain areas where illegal elements incite groups to surround and attack residences of foreign businessmen to demand money or property. In some areas where foreign businessmen stay, serious knife attacks are handled as low priority. In other areas where foreign businessmen stay, cultural refinement is rather poor (including the level of foreign languages spoken, fluency with international scientific and technical fields, and the state of cultural facilities in

enterprises). Foreign businessmen retreat to avoid conflict since it is no longer rare that once the term inappropriate is heard about low quality, expensive hotel service, they are spat at in cars or their telephone service frozen.

2. The need to protect the legal rights and interests of FIEs in terms of legislation, implementation and popularization of the law, and legal services. The report of the party's 14th plenary session stressed, "A pressing need in establishing a socialist market economic system is to pay great attention to creating a legal system and enhancing legislative work, in particular by seriously formulating and perfecting laws and regulations to guarantee reform and opening to the outside world, accelerating macro-economic controls, and standardizing microeconomic behavior." From one aspect, remaining issues regarding the growth of FIEs and protecting their legal rights and interests proves the objectivity of this "pressing need." It indicates the necessity and importance of providing protection for the legal rights and interests of FIEs in terms of legislation, implementing and popularizing the law, and providing legal services.

In terms of legislation, we first must enhance our study of and borrowing from relevant foreign laws and regulations. We must perfect the implementing articles of existing basic laws regarding FIEs and the entire corpus of laws and regulations regarding the process of establishing, operating and terminating FIEs all the way from project negotiation studies through to liquidation of assets. Likewise, we must establish complementary legal laws and regulations such as corporate law and laws regarding notary publics and attorneys to ensure that each major activity of FIEs is brought onto the legal track, such that there is unanimity between what is introduced and what is needed and equal stress between preferential treatment and controls.

Regarding implementing the law, organizations and personnel involved must really and truly have an attitude of protecting the legal rights and interests of FIEs. Regarding the handling of specific cases, they must be quick in terms of time, top in terms of quality, and equal in terms of applying the law to Chinese and foreigners.

All levels of government concerned with foreign economic work and all levels disseminating legal information must truly get a handle on disseminating and educating people about foreign economic laws and regulations. In particular, they must disseminate information concerning laws and regulations about investigating and verifying foreign businessmen's ability to invest, draw up contracts, implement effective articles of contracts, resolve conflicts between parties to joint ventures, and liquidate assets to FIEs. They also must propagate information on international economic laws and regulations peculiar to the issue of "FIEs and GATT."

Notary public and legal sectors should begin from protecting the legal rights and interests of FIEs and actively

enter into FIE projects in the entire process from determining a project through to cancellation. They must provide to FIEs multifaceted, multilayered high-quality overall legal services. Any document which has the force of law must be notarized. Attorneys definitely must participate in any important economic activity, such as import projects, negotiations on funds or technology, drawing up contracts or agreements, legal operation and management of FIEs (including adding or transferring stocks, modifications and cancellations). This not only is required by international conventions; it is more than reciprocity in form. More importantly, it is an active right to protect the legal rights and interests of FIEs and ourselves.

ECONOMIC ZONES

Shenzhen SEZ Counters GATT-Related Issues

93CE0800A Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 4, 10 Apr 93 pp 62-66

[Article by Sun Xiaogang, affiliated with the Shenzhen Securities Registration Co. Ltd.: "The Challenges Posed by GATT, and the Shenzhen Special Economic Zone's Countermeasures"]

[Text] The negotiations, resumed in February 1992, on restoring GATT membership produced satisfactory progress. If negotiations are successful, China is likely to recover its legitimate status as one of the GATT's signatory states and officially join GATT this year. Then, while enjoying the rights, we will also have to assume obligations; while getting a share of the international market, we will also have to further open up the domestic market. Such a situation will have profound impact not only on domestic economic development in general, but also on the economic construction of the special economic zone (SEZ) in particular.

I. The Challenges

The challenges posed by entry into GATT lie first of all in the need to make policy adjustments. In order to succeed in the negotiations, China must conduct the following policy adjustments.

1. Lowering tariffs. China's current tariffs are rather high. The simple arithmetic average tariff rate is 42.5 percent, and the weighted average rate is 22.5 percent. These are not only much higher than the industrialized countries' average tariff rate of 4-5 percent, but also markedly higher than the developing countries' weighted average tariff of 13-14 percent. Thus the rates are not in conformity with the free trade spirit of the GATT. Therefore, it is necessary to adjust tariffs so that they can basically meet the GATT requirements regarding developing countries' tariffs. In negotiations the Chinese Government has undertaken to reduce tariffs by 50 percent on average within the next three to five years. As

tariff protection mainly targets such goods as automobiles, electronic products, chemical products, and textiles, tariff adjustments will also start from these goods, and will thus have significant impact on the corresponding domestic industries.

2. Reducing the scope of import-licensing control. Currently, the imports which require import licenses account for approximately 40 percent of all of China's imports. In the negotiations we have undertaken to reduce the number of products under import-licensing control by two-thirds within the next three to five years.

3. The system of authorizing the importing of machinery and electrical appliances should be greatly simplified or abolished. Currently, 219 machinery and electrical appliance products are governed by this system; these products account for around 50 percent of imported machinery and electrical appliances, and the import of these products has to be approved by competent agencies. Any import deal involving over \$20,000 worth of such goods has to be approved by Beijing (this rule is not applied to the SEZs). This system is far from conforming with the free trade spirit of the GATT, and there are strong demands for its abolishment. Relevant state agencies are now trying to resolve this issue.

4. The special policies applied to the SEZs and the open regions have to be gradually terminated; such a practice is not in accord with the GATT's nondiscrimination principle. For instance, the practice of giving duty-free special treatment to a GATT member's products exported to the SEZs is in violation of the most-favored-nation [MFN] treatment principle. This issue has been raised many times during GATT negotiations.

5. Making country-specific policies uniform. Currently, China maintains bilateral trade agreements with all its major trading partners, giving different countries different trade-related treatments. According to GATT's principle on the Generalized System of Preferences, such a practice must be adjusted, and the adjustments have to be based on MFN.

6. Adjusting import control policy. For example, the transport construction levy imposed on domestically produced automobiles is 10 percent, but the transport construction levy imposed on imported automobiles is 15 percent; in regard to automobile purchase quotas, a foreign-financed enterprise with over 500,000 yuan in registered capital can buy two domestically produced automobiles, but only one imported automobile; and some imported goods can only be sold in designated stores. None of those practices is in conformity with the GATT's nondiscrimination principle; all such practices must be adjusted.

In view of the abovementioned policy changes, the pre-existing protective barriers around the domestic market will to a great extent be weakened or dismantled, and China's industrial enterprises will directly face competition from foreign products.

After China rejoins the GATT, China's industrial enterprises will face competition from abroad. In general, competitiveness is mainly shown in two respects: one is the price level and the other is the technological level.

With respect to price levels, as labor resources are abundant in China and with the price of labor being relatively low, China enjoys an obvious price advantage in regard to labor-intensive general manufactured products, including light-industry products, textiles, and general machinery and electrical appliances. The prices of basic heavy industry and chemical products are higher than those of equivalent foreign products. The prices of the technology-intensive products with high added value are higher than foreign products; products in this category mainly include passenger cars, integrated circuits, computers, copy machines, and television sets.

With respect to technological levels, there does exist a gap between China's general manufacturing industry and its foreign counterparts, but the gap is not large. However, in regard to advanced processing and technology-intensive industries, the gap between China and foreign countries is huge whether in terms of quality, in terms of variety, or in terms of specifications. For instance, the technological level of China's integrated circuit production is on average 10-15 years behind that of foreign countries. Because of such constraints as those relating to capital and technology introduction, it would be very difficult to merely keep such a gap from growing in the future. The automobile industry is faced with similar problems.

The conclusion reached on the basis of comparative analysis regarding the abovementioned two aspects is as follows: The disruptive impact on the labor-intensive general manufacturing industries will not be great. The disruptive impact will mainly be concentrated on basic industries—including heavy and chemical industries—and new and high-technology industries. The ranking of machinery and electrical appliance products in terms of the severity of the disruptive impact on these products is as follows: computers, videocassette recorders, copy machines, automobiles, motorcycles, color television sets, digitally controlled machine tools, broadcast and television equipments, communication equipments, automatic precision printing machines, and various industrial control instruments. The value of output of those products accounts for approximately 33.5 percent of the total value of industrial output. If the ties between industries are taken into account, then the impact of the GATT on China's industrial economy is very extensive. For some time to come, the disruptive impact on some products will gradually increase.

In terms of the development of the world economy in the 1990s, the world as a whole is in a period of reorganization and adjustment. China's industry is in the stage of moving toward heavy and chemical industries and accomplishing industrial upgrading in terms of the industrial structure. It is necessary to face up to the fact that the GATT impact is unavoidable, and that the

disruptive impact will be extensive for some time to come; but it is also imperative to realize that the disruptive impact will not be unlimited.

First, there are already manifestations even under the current situation where trade protection still exists. For example, in regard to products' market shares, the proportion of domestic sales accounted for by imports is 91.8 percent in the case of plastic industry equipments; 90.19 percent in the case of air conditioning equipments; 77.83 percent in the case of telephone exchange equipments; 73.05 percent in the case of special rubber-industry equipment; 67.39 percent in the case of cable transmission equipment; 42.7 percent in the case of copy machines; and 84.6 percent in the case of integrated circuit boards. Calculations regarding videocassette recorders, audio equipment, and game machines have not been done; nevertheless, in this regard, there are large amounts of smuggled goods on the domestic market, and the market share of those goods is not likely to be very small. All this shows that China's current policy of protection regarding imports is not totally effective; therefore, the negative impact of abolishing the policy of protection will be smaller than expected.

Second, import growth is dependent on export growth and the inflow of foreign capital, but further increase in the exporting of labor-intensive products will be constrained by the situations regarding such factors as efficiency and resources in the future. China has now already accumulated substantial amounts of foreign debt and will face a peak period regarding debt repayment in the next few years. In addition, the direction of flow of international floating capital has changed to some extent because of the drastic changes in international politics and the Gulf War. Consequently, in China foreign exchange will be increasingly in short supply; the exchange rates will be continually adjusted; the renminbi [RMB] will further devalue; and the RMB prices of foreign products will rise continuously. Under such a situation, the competitiveness of foreign products will decline because of the continuous rise in prices, and import growth will also weaken as well.

II. Impact on the SEZ

Regaining the status as one of the GATT's signatory states will represent a turning point in the process in which the Chinese economy moves toward the world as well as an important and crucial step in China's effort to participate in international circulation. This development will not only have an important and profound impact on China's economic life, but also on the SEZ as well. The impact will be dialectical; that is, the impact will have both a positive side and a negative side.

The positive side:

First, there will be favorable effects on the further perfecting and maturing of the SEZ's market economy. After more than a decade of reform and opening-up efforts, the Shenzhen SEZ has achieved substantial economic development and is in the first place nationally in

terms of a mature socialist market economy. The overall functioning mechanisms of the economy of the SEZ are moving toward linking up with the international market. Thus, China's joining of the GATT will further promote the development of the SEZ's market economy; give new vigor to the SEZ's effort to establish and perfect socialist market economy; make the SEZ's enterprises more conscientiously conduct continual adjustments of the industrial structure and product mix in accordance with systems of international standards, international market demands, and international operating and marketing practices; and make the SEZ's enterprises organize and conduct production, promote technological progress, and improve the overall qualities of the enterprises on the basis of conforming to those standards, demands, and practices; thereby accelerating the integration of the SEZ into the international economic system and the SEZ's entry into the world.

Second, there will be favorable effects on the SEZ's effort to further explore the international market. Joining the GATT will be especially good for China against the background of economic regionalization and the trend toward bloc formation in the world. When China recovers its signatory state status in the GATT, the other over 100 member countries and areas of the GATT will unconditionally grant China MFN, and problems in multilateral trade can be resolved in one step. In this way it becomes possible to prevent some changes in trade environment caused by noneconomic factors and, at the same time, to resolve trade disputes between China and other countries through multilateral negotiations at the GATT. In terms of the current situation, the Shenzhen SEZ's exports are mainly transshipped at Hong Kong and Macao, and only a small proportion is directly sold to developed countries like Japan, European countries, and the United States. The proportion of exports destined for the economic hot point, Southeast Asia, is not large either. Trade with faraway countries has just started. After China joins the GATT, the SEZ will create conditions on the basis of fair trade and develop new markets by exploiting its geographical advantages and its foundation regarding the reform and opening to the outside world and by relying on the vast hinterland so as to gradually achieved the strategic goal of making the SEZ's international trade diversified and multilateral.

Third, there will be favorable effects on the effort to accelerate the internationalization of the Shenzhen SEZ. After returning to the GATT, China will correspondingly grant MFN to the other over 100 members, unconditionally. Especially after Hong Kong returns to China in 1997, countries will regard Shenzhen as a new market linked up with Hong Kong. At that time, an Asian international metropolis of a new type which combines international finance with international trade will be standing at the southern door of the motherland.

Fourth, there will be favorable effects on the SEZ's effort to develop the domestic market. As discussed above, in order to join the GATT, the restrictions on the SEZ products' entry into the hinterland market must be

removed. Currently, over 70 percent of the products of the SEZ's enterprises are sold on the international market. Those enterprises' products are highly competitive in the face of similar products made in the hinterland whether in terms of price or in terms of technology and quality. Once the domestic and international markets are opened up, the SEZ can on the one hand continuously develop the market internationally by flexibly making full use of its strengths, and on the other hand endeavour to be the first to enter the domestic market and acquire a share of the domestic market before foreign products enter the domestic market in large quantities, through making use of its strengths such as familiarity with the domestic market.

Fifth, there will be favorable effects on the SEZ's effort to introduce more foreign capital. Presently, there are already over 4,000 foreign-invested enterprises in the Shenzhen SEZ, representing one-third of all the enterprises in the SEZ and accounting for over 60 percent of the total value of industrial output. After joining the GATT, China will open up its domestic market in a big way; foreign businesses will exploit this good opportunity, increasing investment, conducting technological upgrading, and expanding production capacity on top of the achievements already made so as to improve their competitiveness in regard to competing for domestic market shares. It is proper to be optimistic and predict that a new upsurge of introduction of foreign capital will occur in the SEZ shortly after China joins the GATT.

Sixth, there will be favorable effects on the effort to accelerate the reforms of the economic and political systems in the SEZ. The GATT will facilitate the progress of socialist market economy in the SEZ. As a result, we have to be even more bolder than before in regard to reform and opening up, and must intensify the reform effort in an effort to further deepen the reforms of the economic and political systems so that the SEZ's enterprises can truly acquire operating mechanisms characterized by self-constraint, independent accumulation, and self-development. The government will further transform its functions, and truly separate government from enterprises, so as to provide a rather relaxed macroeconomic environment for the SEZ's enterprises in their effort to form enterprise groups and to internationalize.

The negative side:

First, there will be adverse effects on the effort to develop internationally on the part of the SEZ's state-owned enterprises. In terms of market competitiveness on the part of the SEZ's enterprises at large, the state-owned enterprises are the least competitive—especially the so-called monopoly enterprises which manage to survive under the protection provided by the state's policies. After China joins the GATT, those enterprises will bear the brunt of the disruptive impact. In the SEZ such enterprises are mainly state-owned merchandizing establishments and machinery and electrical-appliance enterprises.

Second, there will be adverse effects on the share of domestic market enjoyed by the enterprises of the SEZ. As the products of the SEZ's enterprises are not very diverse, and as most of the products may be sold in the hinterland through the "assembling" practice, these products may manage to have some market share under the trade protection policy. However, after China joins GATT, the domestic market will be further opened up to the outside world, and the products of the SEZ's enterprises will lose their past luster in the face of the onslaught of foreign namebrand products.

Third, high-science and high-technology enterprises which have just started their operations will be affected to some extent. High-tech and new-technology products of these enterprises will face serious challenges. Their products, such as communication equipment and computers, are almost entirely incapable of competing with similar products from Western developed countries. In the short run, foreign products will certainly pour into the domestic market. Consequently the SEZ's high-tech products which have just begun to be produced will face a tough test.

Surely the joining of the GATT will result in jolting and disruptive effects on Shenzhen's economy, but it must be realized that the jolting and disruptive effects will last but a short time. In any case, the SEZ started developing a market economy several years earlier than the hinterland; thus, the enterprises have a better grasp of the laws of market economy than the hinterland. Therefore, the positive impact will be greater than the negative impact.

III. Our Countermeasures

How to weaken or diminish the jolting and disruptive impact caused by joining the GATT is a major difficult issue facing us now. In view of the overall domestic and international political and economic situations, in order to diminish the disruptive impact of the joining of the GATT as much as possible, the SEZ must carry out the following reforms and adjustments:

First, reform the import system and adjust trade policy. Do a good job of making use of the SEZ's unique features to the greatest extent possible, opening up the SEZ market and adopting an appropriately liberal trade policy. Trade liberalization is the GATT's basic spirit. In general, simplifying the import control system and lowering the level of trade protection are important signs indicating that a country is practicing trade liberalization. The history of development of the world economy has testified to the proposition that the process of trade liberalization is linked to the demands generated by rapid economic growth, while rapid economic growth and structural transformation require rapid development of foreign trade. During the period from the early postwar years to the 1960s, Japan exercised strict control over foreign trade; after 1960, in view of the demands generated by rapid economic growth, Japan made timely adjustment of its trade policy and gradually implemented trade liberalization. In 1964, the liberalization

rate of goods had already reached 93 percent. Such policy change in turn facilitated the rapid growth of the economy. This shows that in order to catch up with and overtake the "Four Little Dragons" of Asia in 20 years, the SEZ must practice trade liberalization to the greatest extent possible under the precondition of getting approval from the center. In view of the existing conditions in the SEZ, the SEZ should be said to have the necessary conditions for opening up the market and for trade liberalization. Generally, the obstacles to trade liberalization mainly lie in situations regarding the following things: balance of international payments, structural factors, the degree of dependence on imports, and the current state of industry. After more than a decade of development, the SEZ has been enjoying a favorable balance of international payments in recent years. Such a situation provides the precondition for implementing trade liberalization. Structurally, the share of high value-added products in the SEZ's exports has continuously grown in recent years. The degree of dependence on imports is lower than the national level. High-grade and durable consumer goods in particular, among nonessential goods, are basically saturated. Thus, trade liberalization's disruptive impact on the SEZ's consumer market will be much smaller than on that of the country as a whole. The SEZ's enterprises are in a situation that is opposite to the situation of hinterland enterprises, which are not sufficiently motivated to compete and to pursue technological progress; from the very beginning, the SEZ's enterprises have had their face turned toward the international market and have actively participated in international competition. Over 70 percent of their production is planned according to orders secured on the international market. Thus, the SEZ's enterprises have continuously adjusted and improved their technological level in the midst of competition.

Second, proceed further with the reform of the political system, streamline the government bureaucracy, and delegate power. After China joins the GATT, the market as a whole will undergo rather profound changes. Consequently, how to ensure the sustained and steady development of the national economy as a whole under the new situation has become a major difficult issue facing the government. The government must adjust its own functions and adopt an entirely new posture in meeting the challenges posed by GATT. Carrying out institutional reforms and streamlining the government bureaucracy are urgent tasks facing the SEZ in its effort to reform the political system, and are also important conditions for deepening the reform of the economic system and establishing a system of market economy. Streamlining the government bureaucracy and delegating power are issues on which the SEZ's enterprises and grassroots organizations have made the strongest appeal, expressed their views in the most forceful manner, and have the highest expectations. Streamlining the government bureaucracy and delegating power should result not in horizontal delegation of power, but in vertical delegation of power. Transforming functions

is the precondition for streamlining government bureaucracy and delegating power. Only by truly transforming the government's functions would it be possible to achieve the following goal: creating a situation where the government nurtures the market, where the market liberates the government, where the government liberates the enterprises, and where the enterprises liberate the productive forces. In the future, relations between government and enterprises can be described figuratively as follows: When you invest, I will express welcome; when you apply, I will get you registered; you operate businesses and I provide services; you make money and I collect taxes; when you go bankrupt, I will conduct liquidation; and when you violate the law, I will enforce the law. In addition, the government should also emancipate its mind and remove restrictions on the scope of business activities. Except when explicitly prohibited by the law or in the cases of some special industries or specially-managed goods, enterprises should be allowed to engage in whatever businesses they are capable of engaging in. To that end, the SEZ government must resolutely carry out reforms of the existing administrative system and of party and government organizations in accordance with the principles of separating government from enterprises, separating the party from government, streamlining, unifying, and efficiency. The agencies in charge of overall economic affairs should shift the focus of their work to enhancing macroeconomic regulation and control. At the same time, accelerate the reform of the labor and personnel system and gradually establish a scientific category-based management system and an effective incentive system which fit the different characteristics of government agencies, public institutions, and enterprises.

Third, further deepen the reform of the enterprise system and transform enterprises' operating mechanisms. Doubtless, the most effective protection lies in improving enterprises' own competitiveness. Improving enterprises' competitiveness involves the issue of having enterprises engage in businesses of various industries and participate in the competition on the international market to a greater extent, the issue of enterprise merges, the issue of enterprise bankruptcies. Therefore, great effort must be made to fundamentally resolve the issue of transforming enterprises' operating mechanisms, promoting the transformation which leads to the adoption of the joint-stock system, and to accelerate the process of enterprises merges and enterprise bankruptcies so as to truly push the enterprises to move toward the market. We must adopt a rather relaxed macroeconomic policy and create a rather relaxed microeconomic environment so as to facilitate enterprises' efforts to form enterprise groups, on the basis of carrying out the transformation which leads to the adoption of the joint-stock system. Ensure that the SEZ's enterprises are able to adapt to the new situation promptly, so as to be able to benefit from entry into GATT.

Fourth, actively explore domestic and foreign markets. While transforming their operating mechanisms, the

SEZ's enterprises should seize the good opportunity to actively develop markets internationally so as to ensure that while you are beating into my domestic market, I am beating into the international market. Conscientiously study changes on the international market, timely adjust the product mix in view of our own conditions, and formulate effective measures to exploit our own strengths while circumventing the areas where the weaknesses lie. With respect to tactics, while exploring the markets of the developed countries such as European countries and the United States, it is also necessary to make the "Four Little Dragons" of Asia and the South-east Asian region one of the focuses. Those countries and areas enjoy relative political stability and vibrant economies, and are close to us in terms of cultural environment. Accordingly, when following the diversification strategy, the SEZ's enterprises should give sufficient attention to those countries and areas, and endeavour to increase market share in that region. In addition to the international market, the domestic market also remains to be further explored by us. The domestic market has a great potential; especially, the vast rural areas and the numerous towns are areas where foreign goods will not be able to reach and have difficulty entering for now. The SEZ's enterprises can lower production and marketing costs through setting up factories and stores in the hinterland, so as to make their products even more competitive in the hinterland.

Fifth, formulate an effective tilting policy and accelerate the upgrading and updating of enterprises. In the face of the challenges posed by the GATT, the SEZ government should adopt a tilting policy in favor of industries and enterprises to be developed on a priority basis in view of the actual situation, so as to help enterprises accelerate their structural adjustment, upgrading, and updating. It is proper to apply a trade protection policy on a selective basis. In view of the overall situation in the SEZ, trade protection should be concentrated on the high- and new-technology industries, and, within those industries, on semifinished products, that is, basic materials and basic parts and equipments. Development is not fast in the areas of basic materials, basic parts and equipments, and basic techniques. Engaging in assembling imported parts alone will not be able to lead to the development of the high- and new-technology industries of the SEZ. Therefore, it is imperative to consider, as soon as possible, formulating trade protection measures when the preexisting trade protection measures are weakened or abolished. Furthermore, the approval procedures relating to travelling abroad or to Hong Kong should be simplified and made convenient. Especially, those enterprises authorized to engage in import and export business should be authorized to grant approval for travelling abroad. Enterprises should determine who will travel abroad in view of the needs, and the government should only provide services relating to dealing with foreign countries.

AGRICULTURE

Current Status of Agricultural Reform, Prospects

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[Article by An Xiji (1344 1585 0123) of the Institute of Agricultural Economy of Beijing Agricultural University: "The Current Status and Prospects of Agricultural Structural Reform in China"]

[Text] This short article will explain the current status of agricultural reform which then will be used as a basis for exploring likely short-term prospects for the reform in accordance with the goal of socialist market economy.

The background of the 1992 agricultural reform was a new upsurge in fairly extensive economic reform, rapid opening up, and large-scale economic construction. This upsurge focused on the reform of market system, which mainly includes price decontrol for many capital goods, the beginning of the establishment of money market, import of large amount of foreign capital, and the expansion of foreign trade. Under this background, the agricultural reform also focused on continuously promoting reform in the circulation system of farm products, namely the price reform. At the same time, reform in the property right structure of rural non-agricultural undertakings also began. Both reforms have their own internal conditions and development pattern.

I. Price Reform of Farm Products

This round of farm product price reform differs from that in 1979 and 1988. It carried out across-the-board price reform in the circulation process of farm products. It included a new round of traditional reform in the purchasing price of farm products as well as the reform of the sales price of farm products. Let's first talk about the reform of the sales price of farm products:

1. As far as urban residents are concerned, the sales price reform of farm products refers mainly to the elimination of low-price (subsidized) supply and the change to market trade. The price subsidy, which was originally given by the government to urban residents and generally referred to as the hidden subsidy, was changed to open subsidy. In other words, funds for financial subsidy was used to raise workers' wage and additional compensations. Products subject to price reform included mainly food grain, meat, poultry, eggs, milk, melons, and vegetables. This reform was carried out gradually. Take grain for instance, in 1991 its retail price was increased by 50 percent. In 1992, the purchasing and sales prices of grain were stabilized and generally close to market trade. Financial subsidies for various sideline products were also reduced year after year. In 1992, government subsidies for producers (such as pig, chicken, and cow farmers) and commercial middle links, namely indirect subsidies to urban residents, were all eliminated in principle. Original subsidy funds were used to raise

workers' additional compensations, and sales prices were allowed to be adjusted by the market.

The main reason that this reform was carried out smoothly is that it was done gradually and that additional compensation was increased to make up for the losses of consumers, thus averting possible social disturbance.

Judging from the long run, this reform has profound social and economic significance. First of all, it enabled the consumer behavior of urban residents to switch from the original track of planned economy to market mechanism. Under the condition of price decontrol, urban residents will choose their pattern of consumption according to the situation of family income, individual preference, and market information. This kind of consumption pattern can reflect true social demand. From now on China's urban consumer economy will take the lead and go all out in entering the market economy. Second, as the wage level of urban workers rises, the cost of nonagricultural production, especially industry, will have to increase, thus affecting the price change of industrial products. In addition, since the prices of 70 percent of capital goods have been decontrolled, the traditional economic setup of "seven low's and one high" (referring to the long-term practice under the planned economy where farm product, raw material, energy and communication prices, wage, interest rate, and exchange rate were low while the price of industrial goods was high) will be changed. This is bound to have a great impact on changing the long-existing problems of serious distortion and imbalance in the distribution of natural resources and problems of low efficiency and consumption. Third, this reform has obviously disrupted the long-standing dual-track system of state-run commercial network, forcing the low-efficiency and flaw-ridden dual-track system to undergo reform. In fact, systems of such a transitional nature have accomplished their historical mission. Fourth, this reform is also helpful to gradually defining the vague relationship between the international and domestic markets of farm products, increasing the transparency of farm products market, improving the import and export trade structure of farm products, and, creating conditions for China to enter the international market or, more specifically, the GATT.

2. There are many similarities and dissimilarities between this round of reform in the purchasing price of farm products and that of 1985 where the unified state-assigned purchasing system of farm products was eliminated and replaced with the contract purchasing system. The basis of this price reform is changing the fixed-price (list price) plus negotiated-price (market price) purchasing system, which was carried out after the premature death of the 1985 reform, to the market system. This was done in groups of counties and provinces. By the end of 1992, over 400 counties abolished the fixed-price and negotiated-price purchasing system and switched to the market system. There are three similarities between this round of reform and that of 1985 regarding reform

background. 1) Both reforms were carried out when more and more defects were being exposed in previous purchasing systems. (The 1985 reform was to change the unified and state-assigned procurement system, and this round of reform was to change the fixed-price and negotiated-price purchasing system). 2) The market prices of major farm products, grain, and cotton indicated a declining trend. 3) There was mild inflation. The decline especially in the market price of grain lasted much longer and was at a much greater rate than that of 1985. In some localities, the market price of grain dropped below the fixed price of government, causing the procurement organs to refuse procurement, thus seriously affecting farmers' enthusiasm for production and their living. This has caused social concerns. Was this reform carried out to enter grain into the market system or was it carried out merely to get rid of the financial burden? I think that when judging and evaluating an economic reform, what is more important is to look at the social and economic results of a reform. Take the grain price reform for instance, first we should see whether this reform is conducive to the balance of industrial structure between agricultural and nonagricultural sectors, specifically the supply and demand situation of grain and cotton. Secondly, we should see whether this reform is conducive to gradually narrowing the gap between rural and urban residents, which has been expanding since 1985. Under the above background, if we only have a simple price reform without the introduction of a compatible new economic policy, answers to the above two questions will be both negative. This does not negate the significance of the price reform itself. It means that we cannot carry out single-handed reforms. We should draw a lesson from the failed grain procurement price reform in 1985. If we are to seek, through reform, a balanced development of society and economy and a fair social distribution, we need to have an updated compatible policy. For instance, the government may clearly stipulate and guarantee the lowest price for grain and take into consideration of the inflation factor to realize the abovementioned two goals.

II. The Structural Reform of Property Right of Nonagricultural Production in Rural Areas

In the late 1980's, a type of enterprise known as the share-holding cooperative system, focusing mainly on industry, emerged in the rural areas of China. In 1992, fanned by an upsurge in reform and opening up, a wave of opening share-holding cooperative enterprises swept through the nation, turning nonagricultural rural enterprises previously owned and managed by collectives into "share-holding cooperative" enterprises. Its essence is changing the unitary structure of property right of collective enterprises to pluralistic structure of property right. There are two keys to this issue. First, the previous collective system, which was confusing and vague, is broken down to the share-holding system. Every member of households in areas where collective enterprises are located became a shareholder overnight not only in name but in reality. A certain number of shares were

reserved for "collective shareholders." Second, this new type of enterprises are all equipped with shareholders (representatives) meetings, board of directors, and managers (plant directors). They have adopted the structure of property rights that separates ownership from management. This new type of enterprises also have the element of cooperative system. For instance, some enterprises stipulate that each person can have only one vote instead of considering how many shares each person holds. They also stipulate that shareholders may redeem, but not transfer or trade, their shares. Other enterprises also stipulate that distribution is made according to labor instead of investment and put a strict limit on the interests and dividends of shares. This is a residual element of the system of collective ownership. This shows that this type of enterprise is a half-breed of shareholding and cooperative systems with a very long tail of collective ownership system. But as long as it can play the abovementioned two key roles, it is considered a great reform.

The rise and development of the shareholding and cooperative system in China's rural areas is, of course, not accidental. It has a special historical background. First, it was in 1983 and 1984 that nonagricultural production of China's rural areas began to develop by leaps and bounds. A basic characteristic of this is small scale, easy start, low degree of specialized utilization, and low efficiency of property. However, it has developed rapidly because it can change direction quickly, its management style is flexible, it is tied closely to the interests of local communities, and it has government support. This type of enterprise is a product of shortage economy under long-standing closed social conditions. After nearly 10 years of vigorous development, major changes have taken place in the enterprise itself and external environment. The enterprise has substantially enlarged its scale and walked step by step into the broad market of cut-throat competition, forcing it to adopt advanced technology, raise the degree of specialized utilization of property, seek the economy of scale, and increase the ability to compete. This requires that enterprises expand the source of funds. Switching to the share-holding system happens to a major method for raising more funds. Second, another change that has occurred along with enlarged scale and cut-throat competition is a demand for higher managerial level of enterprises. It is no longer enough to rely only on the human resources of rural areas. They need to recruit specialized managers and technical personnel and give them decision-making power in administration and management. Third, original collective enterprises had for a long time the problem of confusing government functions with enterprise responsibilities and the problem of unclear property rights. Property right was highly centralized in the hands of few cadres while peasants, as members of a collective, were often indifferent toward the enterprise, causing frequent conflicts between cadres and masses. It was, of course, very difficult for this kind of enterprise to adjust to the

environment of a market economy. It was under this condition of times that the share-holding cooperative enterprise was born.

Some people may wonder why it is neither a share-holding nor a cooperative system. Instead, it is a combination of the "share-holding, cooperative, and collective system." Judged from the history of development of Western enterprises, it seems to be an incomprehensible hodgepodge. But I think that such a hodgepodge is precisely an inevitable product of the Chinese model. Just like the dual-track price system in effect for many years, it is an interim system which will inevitably develop into a genuine, Chinese-style share-holding system. This transition probably will be faster than the dual-track price system. The development of market economy does not permit the temporary property right structure to stay too long. Otherwise, society will have to pay a high price.

III. Prospect for the Reform of Agricultural Structure

Reform prospect here refers to short-term prospect. To be more specific, it refers to the building of an embryonic form of socialist market economy. This includes mainly two tasks: 1) clearly defining the property right of enterprise and land; and 2) building an embryonic form of market system. This is a hope and projection. To build such an embryonic form of socialist market economy, there are many more things waiting to be done and they are very difficult.

1. The Issue of Property Right of Enterprise and Land

Our goal is to build a socialist market economy. Under the system of market economy, the most basic economic activity is market exchange which distinguishes the market economy from the nonmarket economy. Labor and commodity exchange includes various kinds of consumer goods as well as productive factors, labor, capital, and land. In other words, buyers and sellers exchange, on the market and through different methods, the ownership or cooperative right of commodities and productive factors. An enterprise or individual can enter the market and carry out exchange activities only if the ownership of property right is undisputed. This shows that clear property right structure and property right with legal protection are the prerequisites for practicing the market economy.

As far as an enterprise is concerned, only by obtaining undisputed property right can it have independent decision-making power in administration and management. This is an indispensable microeconomic basis for any market economy.

After more than a decade of economic reform, the property right structure of China has witnessed drastic changes. Regardless of industry or agriculture, the previous form of property rights, where enterprises were owned and run by the state or collectives, has been seriously affected. However, under the current system, situations where government and enterprise functions

are confused and property rights are unclear still exist almost as a common sight in industry and agriculture. The main objectives of property right reform are: one, separating government from enterprise, and two, changing the unitary property right structure to a multiple one, thereby establishing enterprises or economic entities which have independent decision-making power in management.

First of all there is the issue of the property right of land. Judged from the course of economic reform in China, "the bi-level management system which combines centralized and decentralized management," the system currently in effect in agriculture, like the contract system of state-run industry and the dual-track price system of the price reform, is an interim measure in the process of reform aimed to change the planned economy to the market economy. It is no longer a basic link in the original planned economy, but it is still not suitable to serve as a microeconomic basis for the market economy. This system has played an important role in accelerating agricultural development, but it still has many weaknesses. The critical one is that the property right structure of land reflected by the current system cannot meet the demand of socialist market economy: 1) Government and enterprise functions are confused. This problem is different in form from that of industry but similar in nature. Representatives of village party committee, as a collective, control the ownership and disposal right of land while the village party committee itself is a grassroots administrative organ. 2) There is no clear line between land ownership and the right to use land. The relationship between the two is unclear, not to mention legal protection. There is great flexibility in the system that combines centralized and decentralized management. Sometimes, there is more decentralization than centralization. Sometimes, management is strictly centralized. In fact, the bi-level management system itself is very unstable. 3) Because property right is unclear and production contracts are not adjusted on a regular basis, it is impossible to arouse the enthusiasm of contract peasants for land protection, especially land investment. 4) Under the current system, the average acreage of land contracted by each peasant household has declined throughout the nation year after year. Statistics show that between 1986 and 1991 it declined on the average of 13 percent a year. Due to the restriction of the current system, mainly the nontransferability of land, it is very difficult to gradually realize large-scale management of land even in rural areas where nonagricultural undertakings are highly developed and where most rural labor has already been absorbed by nonagricultural undertakings. This is not conducive to the modernization and sound development of agriculture. To solve these problems, we need to further carry out the reform of property right structure of land, establish a property right structure of land that suits the market economy, strictly separate government and enterprise functions, draw a clear line between land ownership and the right to use land, define the relationship between the two, and allow land to be transferred and capitalized. All

this has to be done on the basis of a legal system. This is a basic task for directing the huge economic sector of agriculture into the socialist market economy.

Second, continuous efforts should be made to transform rural enterprises which are currently owned and run by collectives into the "share-holding, cooperative system." All qualified enterprises should be transformed into share-holding enterprises. This is a microeconomic basis for nonagricultural rural undertakings under the socialist market economy.

Third, commercial enterprises dealing in farm products and agricultural capital goods should get rid of direct administrative interference, including disguised administrative intervention such as "converted companies." They should separate government from enterprise and adopt a style of management that meets the requirements of the market economy.

2. Gradually Perfect the Market System of Agriculture

China has taken a decisive step in the price reform of farm products by eliminating the dual-track system and switching to market regulation. Like the abovementioned property right and management style reforms, the price reform of farm products is also an objective demand of economic development in China. However, we still need to gradually perfect the market system of agriculture. There are mainly three areas: First, we should formulate and implement macroeconomic policies that are in line with the price reform and used to regulate market. The main objective is to regulate the interest relations between different sectors and industrial structure. For instance, economic policies such as the farm product price protection policy, the agricultural financial and tax policy, and the agricultural credit policy need to have certain stability as well as flexibility. They need to be carried out in groups of regions. Through various economic policies, agriculture should be brought into the general national economic plan to guarantee the smooth development of the national economy. Second, we should carry out agricultural market construction, including mainly infrastructure construction such as roads, transportation, storage, farm product treatment (grading and packaging) and primary processing, stations, wharfs, market sites, and buildings. China's rural areas have a serious shortage of market infrastructure. Third, we should formulate and strictly observe various transaction rules and regulations. We should give out heavy rewards and severe penalties to ensure fair competition and trade. This is a weak link in the current stage of the agricultural market as well as a software of infrastructure in the construction of market.

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[Article by the Rural Group, Policy Research Office, CPC Central Committee, and Center for Rural Economic Studies, Ministry of Agriculture: "Develop Socialist Market Economy by Combining Production, Processing, Sales"]

[Text] As rural reform deepens and the commodity economy develops, the operating method of integrating trade and industry with agriculture and combining production, processing, and sales in a coordinated process is enjoying an upsurge of popularity in the Chinese countryside. As soon as it came into being, it demonstrated an exuberant vitality and overwhelming superiority, injecting a new dose of energy into the development of the rural economy. What are its effects on the commercialization and modernization of China's agriculture? What policies and measures should be taken to nurture its development? We conducted a study in order to answer these questions and held a discussion with the interested comrades of 10 counties (municipalities), achieving a measure of consensus.

1. Everywhere there is a scramble to integrate trade and industry with agriculture and link production, processing, and sales in a coordinated process. These are the common features: market orientation and the linking of production, processing, and sales into a coordinated process. In accordance with market demand, the lead enterprise signs a production and sales contract with the peasants, builds a production base, and provides related services. The peasants produce and sell their output to the lead enterprise as the contract requires. The enterprise, for its part, procures, processes, and exports the finished products to markets overseas in accordance with the contract. Profits are distributed at each stage fairly. Thus producers, processors, and sellers are linked in an economic community, sharing risks and benefits jointly and equally. This method of operation transcends the restrictions imposed by the ownership system by marrying state operations with collective operations and individual operations; blurs the boundaries of administrative divisions by linking enterprises inside and outside the county, inside and outside the province, and inside and outside the country; breaks down the barriers between the different trades and professions, thereby spurring the optimal combination of capital goods and the rational adjustment of the industrial structure and encouraging the city and the countryside to supplement one another's strengths and interests. The integration of trade and industry with agriculture was born in a number of Shandong cities which were the first to experience an early outburst of growth. After several years of hard work, most agricultural and livestock production has now become part of a coordinated process involving processing and sales. The new look in the rural economy is one of steady sustained development. In 1985 the city began integrating the production and trading of chickens with agriculture. The foreign trade company imported improved breeds and advanced equipment from overseas, built a fine-breed chicken farm, a feed processing plant, and a slaughtering and cold storage plant, and entered into a more stable trading relationship with Japanese firms. The company provides a coherent set of services: delivering three things, chicks, feed, and epidemic prevention and technical guidance, at the door; procuring at the door; selling three things, chicks, feed, and anti-epidemic drugs, on credit, and settling accounts

on a one-time basis after the birds are slaughtered. Both production and income thus assured, chicken-raising households can go ahead with production free from worry. During the past eight years, chicken output rose from 2 million to 40 million birds and cut-up chicken exports increased from 740 tons to 16,000 tons. For every chicken raised, peasants earn 1 yuan net. By raising 10,000 chickens annually, a peasant household can instantly become a 10,000 yuan household. The foreign trade company too makes a handsome profit in the process. Duplicating its experience in chicken-raising, the city has successively combined production and processing with sales in these areas: grain, cooking oil, cotton, flax, silk, asparagus, chestnut, Chinese prickly ash, tobacco, rabbit, beef, and mink. Because of integration in these 10 areas, 70 percent of all peasant households in the city are part of a stable production and sales relationship and 75 percent of the city's agricultural byproducts are now being processed locally. In these eight years, commercialized farm products increased 110 percent in volume. Not only do peasants have no difficulty selling their products, but their value has more than doubled thanks to processing. In 1992, 900 million yuan worth of agricultural byproducts were used for processing, but the post-processing output value was 1.9 billion yuan. Between 1984 and 1992, per capita net income among peasants rose from 470 yuan to 1,020 yuan. As incomes rose steadily, so did peasant investment in agriculture. Combining trade and industry with agriculture has boosted peasant capacity for self-accumulation and self-development. Agriculture has truly become a high-output, good-quality, and high-profit industry. As Prime Minister Li Peng said during his inspection tour, "Combining trade and industry with agriculture is a good way to develop the rural economy."

With a host of advanced models leading the way, increasingly more localities across the nation have embarked on the road of integration with notable success. Integration has also spawned specialized production. Because of integration, the chicken business of Dajiang Company in Shanghai has developed into a major operation with an annual output of 10 million chickens and earning \$50 million in foreign exchange each year, making it a key local industry. The supply and marketing cooperative of Shengxian County in Zhejiang Province organized the production, processing, and sales of long-hair rabbits into a coordinated process, attracting the participation of almost half of the peasant households in the entire county. As a result, the county has become a top producing area of rabbit fur. On average one rabbit generates an annual income of 40 yuan or so. Many peasants have become rich by raising rabbits. They say, "By raising one rabbit, you can make enough money to pay for oil and vinegar; five rabbits, clothes and fabrics. By raising 100, you become rich." Wendeng Shi in Shandong Province concentrates on dairy processing by organizing tens of thousands of households to raise milch goats. By 1991 there were 70,000 milch goats producing 45,000 tons of milk, more than any other county in the

nation, and 4,400 tons of processed milk powder, determined to be a good-quality national product and popular all over the nation. Integration has also come to banana production in Gaozhou County in Guangdong, apple production in Linqi County in Shandong, herbal medicine production in Shangzhi Shi in Heilongjiang, and down production in Ar Borqin Banner in Inner Mongolia. In each case integration has given rise to specialized production on a substantial scale. Once the production, processing, and sales of several local products are combined, the local economy can take off. Wujin County in southern Jiangsu has successively combined the production, processing, and sales of 10 products, creating a host of pig-raising, fish-breeding, bee-keeping, pearl, silk, and flowers and trees villages. The county is now a leading advanced county in the production of lean pork, ranks second and fourth in the nation in bee-keeping and freshwater-fish breeding, respectively, and accounts for one-quarter of the nation's pearl output. Diversified operations make up 52 percent of the county's gross agricultural output value and per capita net income amounts to 1,500 yuan. Pizhou Shi in northern Jiangsu has integrated the production, processing, and sales of eight products. The integration of silk production alone, from planting mulberry trees, raising silkworms, and toasting the cocoons to weaving silk fabrics, dyeing, garment manufacturing, and export, has given rise to a 250 million yuan business. Altogether these eight products generate 1.07 billion yuan in output value. Already the secondary and tertiary industries in the city account for over 60 percent of its gross rural social output value.

2. The emergence and development of trade-industry-agriculture combination and the integration of production, processing, and sales into a coordinated process have had multiple effects, most notably the following:

First, it has helped link what the peasants produce with what the market demands, accelerating the conversion of the self-sufficient and semi-self-sufficient economy in the countryside into a commodity economy. Integration also connects the domestic international markets, on the one hand, with tens of thousands of households, on the other, so that production, procurement, processing, storage, transportation, and sales are all closely connected, effectively ending the divorce between production and the market. By signing a contract, peasants enter into a more stable relationship with production enterprises and receive appropriate coordinated services. They produce crops and raise poultry under guidance, receive services during the production process, and find ready buyers for what they produce at guaranteed prices. Thus production becomes more predictable and less haphazard.

Second, it has bridged the gap between small-scale production and the application of science and technology [S&T], spurring the transformation of traditional agriculture into modern agriculture. With trade-industry-agriculture integration, the lead enterprise needs a steady source of materials. As a result, raw

material production must be reasonably concentrated and take place on an appropriate scale. Taking advantage of coordinated services provided by the lead enterprise, peasant households expand production capacity as much as possible to reap the benefits of the economies of scale. The marriage of the two is the main driving force behind the rise of scale management in agriculture. This kind of scale management and interest mechanism has created an important way to apply modern technology and modern equipment based on specialized production, giving rise to a new system of diffusing and popularizing scientific and technical achievements. Its characteristics are a high starting point and high effectiveness.

Third, it has helped broaden the circulation and integration of elements of production between urban and rural areas and expedited urbanization in the countryside. The popularization of industry-trade-agriculture integration has built bridges between the city and the countryside so that they have a mutual stimulating effect on each other as they develop in tandem. On the one hand, organizing the market-oriented production of agricultural byproducts on a large scale has made available ample materials for processing and accelerated the rapid development of the processing industry in the towns, thereby stimulating commercial circulation and the development of the transportation and other tertiary industries. On the other hand, the development of the secondary and tertiary industries has powerfully steered the flow of technology, qualified personnel, funds, goods and materials, and information from urban to rural areas in increasing quantities. Add such resources as land, labor, and raw materials, and you have a critical mass that would only help speed up urban-rural integration and create new productive forces.

3. Guide them constructively, offer them strong support, give them a free hand, and strive for continuous improvements. Such should be our policy toward trade-industry-agriculture combination and the organization of production, processing, and sales into a coordinated process. The goal is to introduce these methods of operation in a widening field and in more and more industries and trades, from the low end to the upper end, loosely at first and later as tightly knit organizations. Common to the experiences of the various localities are the following:

1) Open up the market diligently. Whatever the industry, whatever the product being integrated, the first order of business is to do a good job in market forecasting and keep abreast with market changes and its development trends. Integration should be based on meeting market demand.

2) Put the lead enterprise on a sound basis. The lead enterprise serves multiple functions: opening up the market, guiding production, deepening processing, and providing good services. Its economic muscle and power as an engine of development determine the scale and efficiency of the integrated operation. Accordingly, every effort at upgrading the lead enterprise is tackled as the key

link in trade-industry-agriculture integration. By perfecting the enterprise contract system, introducing the shareholding system, improving management, and speeding up technological transformation, localities seek to gradually build up the lead enterprise as a modern and technologically formidable enterprise with a high standard of management. That way it can fulfill its role as a leader in processing, an intermediary on the market, and a service center.

3) Establish a successful production base. When it comes to the establishment of production bases, one important point is distribution regionalization. Plan comprehensively and locate production bases properly in accordance with the principle of suiting measures to local conditions, exploiting their strengths, concentration, and high yield and high profit so as to gradually put together a regional economy revolving around the lead enterprise and compatible with local resource characteristics. Second, farming intensification. Concentrating on one or a few key agricultural byproducts and using the approach of focused investment, focused services, and focused procurement, the lead enterprise should guide the peasants to take up scale management on an appropriate scale step by step, discarding the small-but-complete mode of operations in favor of specialization. Raise the standard of intensive farming. Third, services must be systematized. To make services "coordinated, effective, and timely," the effort to improve service organizations and facilities should be intensified. Working in conjunction with other economic and technical departments and village cooperative organizations, each bringing out its own strengths, lead enterprises should provide the bases with good services in such areas as technology, goods and materials, funds, transportation, and information, gradually forming a service system that is coordinated from top to bottom.

4) Perfect the operating mechanism. Using economic interests as the link and forming a mutual-benefit and rise-and-fall-together relationship is the internal driving force for sustained trade-industry-agriculture integration. Accordingly it is critical that we handle the relations between lead enterprises, on the one hand, and peasants and other service organizations, on the other, properly in accordance with economic principles. Most localities comply with the following principles in handling these relations: a) Support production. Processing and trading enterprises support production as a precondition for the realization of their own interests, so they take the initiative to provide services for production and turn over part of the profits from the processing and trading stages to the peasants. The lead enterprise aids peasants in developing production by, among other things, prepaying deposits, providing low-interest loans, dispensing aid-agriculture funds, and selling seedlings and feeds on credit. It also encourages the appropriate economic and technical departments to provide production bases with services by paying the latter a service fee of a reasonable amount. b) Mutual support. Whoever supports the construction of a production base will be

responsible for processing and buying and selling. This principle is to be adhered to at all times, when a product is selling well and when it is doing poorly, so as to avoid the scenarios created by market ups and downs: panic procurement and panic purchasing or the refusal by companies to procure. c) Self-protection. The development of a commodity economy faces a dual risk: wild market swings and natural disasters. At times when the market is riding high and trade-industry-agriculture integration is generating handsome profits, set aside a reasonable portion as risk funds for deposit in a bank. When sales turn sluggish and the market hits a slump, the money can then be used for self-support, thus cushioning oneself from the effects of wild fluctuations on the market.

5) Step up organizational leadership. Combining trade, industry, and agriculture and linking production, processing, and sales in a coordinated process embraces multiple facets of urban and rural economic restructuring. It touches upon many areas and involves important policy matters. It is necessary for party committees and governments at all levels to do a good job in organizational coordination and give support at the policy level. Organizational coordination means that when problems arise which the trade, industry, and agricultural sectors cannot resolve on their own, a party committee or the government will step in to marshal the resources of all quarters, coordinate, and provide services. For example, they may set up an agricultural products production base; actively coordinate the activities of the agricultural, S&T, and materials departments; improve the market circulation facilities; and enlist the involvement of the urban construction department and industry and commerce administrative bureau. To "give support at the policy level," the government must formulate policies, laws, and regulations to create a favorable climate for trade-industry-agriculture integration. For example, it may guarantee funds, energy supplies, and transportation facilities on a priority basis to large-scale inter-regional and inter-ownership-system companies combining agriculture, industry, and commerce. Tax cuts, tax exemptions, and delayed tax payment may be used. Disaster-stricken processing enterprises combining trade and industry with agriculture should be given special consideration by the tax agency. Export-oriented enterprises good at opening up a market should be authorized to import and export on their own.

Commentary on Problems Concerning IOUs

93CE0570A Beijing JINGJI CANKAO BAO 19,
20 May 93

[Article by Ye Qiyuan: "IOU, Where Do You Come From? Thoughts on the Problem of IOUs" and "IOU, Where Do You Go? Thoughts on the Problem of IOUs"]

[19 May 93 p 1]

[Text] In recent days, fund shortages have become a big "hot spot" in China's economic life. With an overall

shortage of funds, the crucial questions are how to guarantee funds for the purchase of this summer's and even autumn's agricultural products, how to stop the IOU phenomenon, and furthermore, the part these play in the stable development of the national economy. One should see that China's population is large, and having a poor foundation to begin with, the problem of fund shortages will exist in economic development within a commensurate period of time; therefore, the nation must control the total supply of money and scope of credit, and under this major premise, greatly increase them by management using a good degree of agricultural by-product purchase funds.

A direct reflection of the problem of IOUs in purchasing agricultural by-products is a lack of procurement funds. Nevertheless, the country has in fact made priority arrangements each year for this portion of funds, so why haven't the funds returned back into the hands of the farmers? Analysis of the causes is multifaceted: First, wherever there is rapid development, there is always the desire to enlarge fund sources by every possible means. With a limitation on the total amount of funds, we must have an orderly sequence in the planning process. If agricultural by-product purchase funds are in essence farmers' "wages," creating a shortage can give rise to social tremors. Looking precisely at this point, some areas and departments just leave this "tough gap" to be filled by the state primarily by pumping out a great deal more purchase funds. The fact is that the nation is still forking out money to finalize last year's solution to the IOU problem. This just creates a vicious circle and then IOUs also remain uncorrected. Secondly, this past year's increased "revenue raising craze," due to its high interest rate inducements, greatly affected bank savings deposits, assuring agriculture's "cake" will be snatched and eaten on bank dishes, influencing both the schedule and amount of agricultural by-product purchase funds put into circulation. At the same time, many enterprises that regard agricultural by-products as raw materials, due to product overstock and lack of economic benefit, bought raw materials but could not make the payments. Last year the cotton payment money tied up by textile enterprises amounted to more than 8 billion yuan. Thus, purchase funds went out but did not come back and we were forced to use IOUs to replace them.

In addition, there are also some explanations found in the financial system, expressed as follows: First, due to the requirement that agricultural by-product purchase funds be planned for in advance, in the event an inaccurate agricultural product harvest market condition forecast is encountered, central bank technical problems—planning for special long- and short-term bank loans and "timeliness" of loans—will cause a gap in agricultural by-product purchase funds.

Second, the agricultural by-product purchase loan interest rate is 7.74 percent, lower than the standard loan interest rate of 8.64 percent. And in managing agricultural by-products, due to the slow turnover of funds, procurement costs greatly increase and result in low

benefits. Relatively high profits can be obtained by engaging this portion of funds in other management practices this use of agricultural by-product purchase funds is fairly common everywhere.

Third, at present, units below county level open accounts in agricultural banks and those above county level open accounts in industrial and commercial banks; in other words, the granting of agricultural by-product purchase funds is borne by agricultural banks while the recovery of agricultural by-product market loans is the responsibility of industrial and commercial banks. Therefore, the agricultural by-product purchase funds cycle becomes disjointed, keeping purchase funds from returning to their proper place in a timely manner, and the more funds are constrained, the more easily this type of phenomenon occurs.

In addition, China's agricultural by-products, especially staples, were for a long time in short supply; thus, in production we chiefly sought increases in yield. Yet along with economic development came an increase in the level of consumption, and consumers changed from seeking to eat "enough" to eating "well," but production did not adjust in a timely fashion. Even as a nationwide increase in production of staples was realized, it was not enough to meet consumption demands and we were forced to rely on adjustment brought about by increasing imports. National purchases of staples resulted in serious over-stocking and pressure on funds; this is also a primary reason for the appearance of IOUs.

In short, the situation is extremely complex and there are numerous aspects of the IOU problem, including neglect of agriculture and failure to understand the interests of farmers as well as defects in the system and specific deficiencies in work.

If we want to resolve the issue of the "tough gap" in agricultural by-product purchase funds, we must adopt tough measures. We must progressively digest the past legacy of old debts, but under no circumstances allow the emergence of a "gap" in purchase funds this year, and wherever a lack of subsidy funds develops in purchasing agricultural by-products, the national government will deduct, month by month, from among other funds in the central financial allocations to these areas and simultaneously transfer these funds to appropriate banks; wherever there are subsequent arguments back and forth about the problem, the national government will first suspend appropriations to these areas. If industries are in arrears on agricultural by-product loans, affected banks will deduct correspondingly from those factories' other funds and simultaneously transfer funds to appropriate agricultural by-product areas, thus ensuring that purchase funds remain fixed.

Banks will independently open accounts for agricultural by-product purchase funds and manage these as special accounts, and after withdrawing funds promptly deposit them into the special accounts to effect circulation within the system, thus ensuring funds are not diverted.

To guarantee purchase, scheduled money must promptly reach its place. Provided these tough measures are genuinely implemented and agricultural by-product purchase funds obtain priority guarantees, this could completely prevent further appearances of IOUs.

[20 May 93 p 1]

[Text] Resolving the issue of IOUs by adopting tough measures merely treats "symptoms"; we must genuinely cure the "root cause," so we must deepen reform of the agricultural product buying and selling system, cause agricultural products to become true commodities and cause agricultural subsidies to become investments in economic development; in short, only reform has the ability to ultimately eliminate IOUs.

When agricultural products become true commodities, then farmers make production management activity decisions for themselves on the basis of socialist market economics and on the basis of market demand. Nevertheless, one should see that the market, this "invisible hand," is not all-powerful; it is visibly flawed. Agricultural production, regarded as the unity of natural reproduction and economic reproduction, is not only subject to the complete influence of economic fluctuations but is also subject to natural climatic restrictions, thereby causing the supply of agricultural products to be largely unstable and out of balance. At the same time, since it is subject to restrictions such as limited land resources and a long crop growing cycle, agriculture's comparative benefits are relatively low. Therefore, in market economics, agricultural producers are put in the same category as labor, making it very difficult to obtain an average social profit.

Comparing agriculture to other industry, due to its relatively slow technological progress, the social benefits of agricultural products have greatly exceeded the economic benefits; thus, from the perspective of market economics, the ability to compete for funds is very weak. Moreover, on the basis of China's national situation, prior to the massive shift in the farming population and the achievement of large-scale agricultural mechanization, the productive force of agricultural labor was far lower than that of other industries. Therefore, in order to cause agricultural products to become true commodities, we cannot just simply "push" farmers in the direction of markets. In order to enable agricultural products to become true commodities and enable farmers to enter markets, we must adopt governmental measures to perfect markets. The government must also progressively build a system for sustaining agricultural production as well as a system for stabilizing agricultural markets. On the one hand, the government must increase agricultural inputs, but on the other hand, it must utilize finance and credit, control measures and more administrative levels and channels for normal agricultural market fluctuation to build a system of regulating reserves of important agricultural products that relate to the national economy and the people's livelihood, and build an agricultural product insurance fund. Only in this type of rectified

market can agricultural products become true commodities and IOUs be ultimately eliminated.

Worldwide economic development clearly indicates that all countries provide agriculture with large financial subsidies. Like countries with fully developed market economies, such as the United States, we should also adopt a pattern of formulating agricultural product target prices and granting low-interest loans to implement large agricultural subsidies.

Agriculture is the foundation of the national economy; agricultural subsidies are a financial burden, but even more they are an economic investment, and from the long-term view of the development of the entire national economy, they are a profitable investment. This is because merely stabilizing agriculture could possibly result in an increase in industry, and development of the entire economy. China's economic development conditions have even more abundantly illustrated that whenever agricultural development is good, the development of the entire national economy picks up speed and whenever agriculture experiences problems, national economic development is adversely affected.

As agriculture rises and declines, so goes the nation. Concerning this tumor on agriculture—the IOU, we certainly want to treat the "symptoms" and especially the root cause, not only by applying a powerful medicine in a central location to control it, but even more by using the sharp scalpel of reform to thoroughly remove it, thus ensuring the healthy growth of our national economic body.

Abundant Cotton Harvest in Jiangxi Expected

93CE0772A Beijing JINRONG SHIBAO in Chinese
5 Jul 93 p 1

[Article by staff reporter Tong Yipin: "Jiangxi Bumper Cotton Harvest Foreseeable"]

[Text] Jiangxi Province cotton production since last year has proven the face value of single production and total production and sales figures, all four far surpassing last year's historical statistics. This year's even higher cotton crop production may reach 350 million bales, 18 percent more than last year's production. Jiangxi's reasons for good production are: 1. Cotton sales stimulate more planting. 2. Cotton is the most profitable crop compared to rice or vegetables or tea, according to 1992's report on 30 cities and 1,100 farmers. 3. Cotton allows favorable credits and loans because of its nonperishable nature, and many cities reward cotton farmers.

But there are problems: 1. Overproduction. Last year's total crops produced 332.99 million bales, 72.99 million bales above the nationally forecast 260 million bales. 2. The interest returned on capital investment is disappearing, devouring capital and not producing enough dividends. 3. The difficulty of converting cotton crops to cash means Jiangxi's cotton industry is carefully watching the following policies: 1. Stabilizing cotton

production 2. Discouraging overproduction for easy credits and loans. 3. Hoping for better prices and sales of cotton crops. 4. Controlling quality of cotton production, as well as better balancing the climate of supply and demand.

Shandong Anticipates High Output of Summer, Fall Crops

93CE0772B Jinan DAZHONG RIBAO in Chinese
4 Jul 93 p 1

[Text] On the afternoon of 3 July, the provincial government convened the Shandong Agricultural Production Telephone Conference, mobilizing cadres and masses in the entire province, on the basis of seizing the summer bumper crop in grain, to battle to concretely grasp and do well agricultural field control for the fall harvest during the months of July, August and September to ensure that the entire province will improve harvest management of all crops and increase farmer's income.

During the meeting, Vice Governor Li Duanting told the agriculture community that the quality of farmer's lives is improving. The total production of summer agricultural crops may reach 200 billion pounds, with crops total planting area covering 9,620 acres of farm land. Products such as rice, vegetable and cotton occupied 1,700 acres, and disease control on cotton crops has been greatly improved. During the meeting, Vice Governor Li related the following very important views: we must have great confidence in cotton production in three ways: first we must protect the cotton farms and any damage must be stopped; second, disease must be closely controlled; and third, water irrigation, planning and control, and fertilizer control as well must be carefully managed. The government has reward funds for farmers in order to smooth difficulties in sourcing investment.

Everyone must work hard during the fall harvests; corns and melons occupied three-fourths of all spring grain area, their production accounted for 85 percent of all spring grain production. If we can maintain this, fall production can be stabilized. We also have cotton, peanut vegetable and fruit products to meet our needs.

We must open more doors for farm products in order to increase farmer's income. On the side, farmers can also engage in animal husbandry and fishery enterprises. Farmers must utilize all vacant lands for planting all kinds of crops for the fall harvest, and we must also plant forests during the rainy season, to ensure this province's task of planting 15 million acres of trees during the rainy season.

Finally, Vice Governor Li stressed: The main responsible comrades at all levels must be concerned for agriculture and must personally grasp agricultural work, and responsible comrades must rely on agriculture. All localities must carry out a comprehensive investigation to see whether or not the policies promoting agriculture set down by the Central Committee and the provinces are being implemented. We must organized working groups to go down to the grass roots, to guide agricultural production, and to assist the farmers to solve their practical problems. All trades and professions must continue to propagate the fine tradition of assisting and caring for the peasants, and agricultural departments must conscientiously manage information on peasant affairs and expand technology. At the same time, we must concretely strengthen work to ease peasant burdens. This year, if we can increase the two major jobs of increasing peasant income and easing peasant burdens, only then will there be the prospect of the peasants' being happy and will the rural economy continue to develop. Regarding this, leadership at all levels must continue to work on, and the first thing we must do at present is to ensure the purchase of summer grain without issuing IOUs, and we must not hiddenly increase peasant burdens. This we must do.

Problems Defining Criminal Law Under Market Economy

93CM0389A Shanghai FAXUE [JURISPRUDENCE]
in Chinese No 139, 10 Jun 93 pp 32-35, 39

[Article by Su Huiyu (5685 1920 3342), You Wei (3266 0251), Ning Zi (1337 1311) of the Criminal Law Research Institute, Shanghai Jurisprudence Society: "A New Criminal Law Concept To Serve the Market Economy—A Roundup of Views Expressed at the 'Market Economy and Criminal Law' Symposium"]

[Text] The Research Office of the Political and Law Commission of the Shanghai Municipal CPC Committee and the Criminal Law Research Institute of the Shanghai Jurisprudence Society co-sponsored a "market economy and criminal law" symposium on 3 May to discuss China's macro and micro questions relative to criminal law during the period of economic system transformation. More than 70 representatives attended the symposium, and close to 30 academic papers were presented for exchange of opinions. Wang Liping, deputy secretary of the Shanghai Municipal CPC Committee, attended the symposium and delivered a speech. Following is a roundup of the principal views expressed at the symposium:

I. A Macro Theoretical Study of Criminal Law

On Forming a New Criminal Law Concept

Reforming the Criteria for Crimes and Noncrimes

The traditional concept of criminal law looks into the extent of injury to society as a criterion determining whether an act is a crime or not. From the viewpoint of what constitute crimes, this means the extent of damage of the object that the crime acts on. The object protected by criminal law is usually the nation's political power of dictatorship or the economic system based on public ownership. In determining injury, we have for a long time attached importance to objective effects (such as the seriousness of the outcome and the degree of public resentment), but often ignored comprehensive assessment of the damage that the act has caused society. Moreover, we have not given sufficient attention to the personal characteristics of the individual committing the act, the possibility of his recommitment, and the more extensive damaging and dangerous nature that the act may have against social relations. Crimes are a kind of material activity in society, and the criteria for their assessment is relative. Productive forces are the ultimate decisive factor for all aspects of social development. The prosperity of our nation, the affluence of our people, and the display of the superiority of our socialist system all depend on the development of productive forces. In dealing with the question of crimes versus noncrimes, we must now change the model based on the product and planned economies and proceed from the interests of building a new order for the socialist market economy. We should establish a value system in the interest of developing our social productive forces.

A Proper Grasp of "Productive Forces Criteria"

According to some scholars, criteria based on productive forces is a fundamental standard in the social value system. We should not view them with a simplistic attitude or in terms of absolutes, but should understand and grasp them in a comprehensive and scientific way. In forming scientific criteria based on productive forces, particular attention should be paid to the four "shouldn'ts" and "avoid's." That is, we shouldn't misinterpret productive forces as absolute economic criteria and should avoid vulgarizing them as money standards. We shouldn't equate them with the criteria for judging the development of a certain department or region and should avoid localizing them. We shouldn't misunderstand them as exclusive criteria for judging the right and wrong of acts and should avoid making them the only and absolute standards. We shouldn't view them as man-made, self-defined criteria and should avoid oversimplifying them into standards for individuals. The criteria based on productive forces cannot exist independently of economic, political, legal, ethical, social, and cultural values. It would be extremely absurd and dangerous to ignore the concrete legal standard when discussing the correct criteria for judging whether a crime is injurious to society or not. We should insist on agreement between criteria based on productive forces and the legal standard so as to achieve the dual purpose of social development and law and order. This is most important.

Scientific Standpoint on Criminal Law Methods

A striking characteristic of the traditional legal concept under the planned economic system is that more stress is put on punishment than on the people's interests. In adjusting social relations, it emphasizes the application of criminal law, but ignores the functions of the civil, economic, and administrative laws. Of course, due to its unique compulsory force, the criminal law can adjust social relations, but its role in this respect should be based on specific laws in various other fields. Criminal law should not directly interfere in concrete social relations. Its direct interference without other laws as a basis will suppress to some extent the creation and development of certain social relations. This negative effect is especially evident on the developing and changing socioeconomic relations. Being the most severe means of punishment, criminal law should not be applied to the economic sphere too early because there are many other alternatives—including legal, economic, administrative, and ethical measures as well as trade practices—to choose for adjusting the standards for economic activities (including the criteria for unlawful economic activities). In choosing the measures for such adjustment, we should give priority to those other than criminal law. On this question, we should not pursue the so-called "principle of priority of criminal law." Some scholars have held that there should be no judgment by analogy in dealing with economic crimes. In their opinion, economic crimes are different from public security crimes. Generally speaking, the premise for economic crimes is

the violation of economic or administrative laws, and such violation is hard to comprehend and judge by the moral standard and knowledge of average people. Strictness in determining crimes according to specific laws will help eliminate the problem where people do not know what to follow. It will also avoid the danger of determining crimes without looking into the circumstances.

Economic Principles, Appropriate Principles of Punishment

China's traditional punishment system centers on loss-of-liberty punishment. In criminal judiciary, particular attention is devoted to the role of punishment in preventing crimes (social deterrence). Such a punishment-stressing concept is not conducive to the creation of a relaxed environment for developing the socialist market economy. It also runs counter to the general development trend of the punishment system in the world, which is transforming toward civility and relaxation. To rectify the traditional mistake in using punishment, we should establish an economic principle for the application of punishment. Specifically, this means that in the concrete application of punishment within the framework of law, we should satisfy as much as possible the needs of developing social productive forces and commodity circulation and use the minimum judicial costs in exchange for the maximum social benefits of crime prevention and control. Based on this principle, we should put more stress on using fines and property penalty in dealing with economic crimes. At the same time, we may set up two new punishments: disqualifying the offender from doing business for a prescribed period and depriving him of a certain economic activity for life. Within a certain framework, we may also consider permitting the use of pecuniary penalty in place of loss-of-liberty punishment or subjecting the offender to unpaid labor as an alternative to pecuniary penalty and short-term loss-of-liberty punishment. This will free economic criminals from certain criminal treatments. With regard to these questions, we should change our concept about punishment. It should be noted that loss-of-liberty punishment is not necessarily more effective than property penalty nor does it always play a better role than the latter in dealing blows at and frightening criminals. In dealing with economic crimes, some scholars said, we should not merely stress "heavy punishment" and "hard strike," but should treat each case on its own merits and handle it appropriately and effectively. This is because in modern society the factors constituting economic crimes are much more complicated than traditional public security crimes, and accordingly the individuals involved in economic crimes have remarkably different liabilities from those of other crimes. Of course, the public cannot completely relieve an economic criminal of his liabilities just because of the pluralistic and complicated crime-causing factors. When touching on the question of proper punishment, however, they would inevitably consider the various factors constituting the particular crime, including the social environment, policy, system, and distribution method. Therefore, a

scientific and wise method in dealing with economic crimes is to look into the reasons for each particular case, analyze the liabilities of the individuals involved, and mete out appropriate punishment. For a long time, however, people have overlooked the importance of appropriateness in achieving effective punishment and overemphasized the role of heavy punishment in controlling economic crimes. This has resulted in the extremely odd phenomenon that new legislation has continued to be introduced, while judicial work has remained "ineffective in striking at criminals," and cases of economic crimes have kept increasing.

Democratization of Criminal Law

To make China's criminal law more democratic and scientific, we should, first and foremost, uphold the legislative guiding principle that all men are equal before the law and resolutely change the present legislative trend that gives lighter punishment to state functionaries who have committed crimes. It is necessary to change the thinking of merely emphasizing personal rights but ignoring the citizens' rights of democracy and freedom. We should stress the legal protection of the democratic and freedom rights of citizens and gradually expand the scope of such protection so that they can fully enjoy these rights as long as they are doing nothing prohibited by the law. We should change as soon as possible the concept of giving objective damage to the offender on the basis of the traditional idea of retribution. In setting verdict on an act and deciding on its sentence, we should consider both the objective damage and the subjective danger of the offender so that these two things will act on each other and serve to check the conviction and sentencing. We should clearly define the role of punishment in checking and preventing crimes in the entire crime control system of our society, discard the lopsided idea that leniency or harshness in meting out punishment is invariably linked to the rise or fall of the crime rate, and proceed step by step to break with the closed-door punishment system of the current criminal law focusing on depriving the offender's personal freedom and characterized by the extensive use of life penalties. Instead, we should see to it that a fairly socialized punishment system is applied along with comprehensive public security measures and they react with each other to form a crime-prevention system with Chinese characteristics. We should develop our punishment system toward a more open, stable, and democratic direction. In further improving our criminal law, we should continue to increase the openness of legislation and let more people from different social strata see directly how a criminal law amendment is drafted and ratified so that every revision and improvement of this law will be founded on a firm, reliable democratic-centralism basis and that the democratic principle of socialist legislation can be fully carried out.

In addition, some scholars discussed the questions on the guiding principle and tasks of China's criminal law, the

main elements of criminal jurisprudence, and the legal concept about economic crimes under the market economy.

On Criminal Appraisal of Illicit Behavior

Manifestations of Illicit Behavior

In the economic sphere, illicit behavior [shifan xingwei] refers to those social phenomena that are disagreeable to the norm or for which it is hard to set up a norm. Illicit behavior in the economic sphere in China today falls into three main categories: acts not conforming to the norm, acts conflicting with the norm, acts for which it is hard to set up norms. Ostensibly, misconduct is caused by untimely or non-standard legislation. But an in-depth probe of the question reveals that it is a cultural phenomenon brought about by the change in social structure. It is an inevitable legal-cultural phenomenon appearing in the period when China's social and economic structures are undergoing a change—an inevitable outcome of the conflicts of legal values under the two different economic systems. In the inceptive period of building a market economy, a certain degree of the illicit state is inevitable. It is a price that we have to pay for building a market economic order and for enacting market economic rules in the days to come.

Judgment of Offensiveness of Illicit Behavior and Its Control

The question of judging the offensiveness of illicit behavior involves the choice of criteria. For this purpose, we must choose a criminal law theory that reflects the operations law of the market economy and conforms to the rules of market economic activities. Specifically, this means three major principles: laissez faire, fair competition, and honesty and credibility. The "laissez-faire principle" is to ensure the maximum extent of economic vitality and benefits. The "fair competition principle" is aimed at providing an equal footing and opportunity for economic entities to take part in economic activities. The "honesty and credibility principle" guarantees compliance with contracts and prevents infringement on legitimate economic interests. In dealing with illicit behavior, we should control it through timely legislation and deal accurate blows at it by taking criminal judicial action. The judicial action against illicit behavior should adhere to the principles of both "prudence" and "leniency." Illicit behavior that violates current law but conforms to the rules of the market economy, and those economic activities that have some harmful effects but are not seriously injurious to the economic interests of our society, may be considered as not criminal in nature.

On Criminal Offenses by Legal Persons

Theoretical Basis of the "Dual-Punishment System" for Offenses by Legal Persons

The theoretical basis of the "dual-punishment system" for offenses by legal person offenders may be summed up

as the "theory of dual criminal causes and liabilities for offenses by legal persons." Usually when two criminal causes exist, one is from society; the other is on the part of the individual. This leads to two criminal liabilities. In dealing with criminal liabilities, obviously it is unfair to implicate "society" in the individual's crime. It is equally unfair to shift all social liabilities to the individual and let the individual bear the blame for "society." In view of dual criminal causes and liabilities, a scientific method of calculation should be to deduct "criminal punishment" due to the liability of society from the total punishment to find out the fair punishment for the individual. However, because it is hard to define the criminal liability of society at large, this dual-punishment system cannot be put into practice. As to criminal offenses by independent social units—offenses by legal persons—there is a certain method to divide the criminal liabilities, and the theory of dual criminal liabilities can, therefore, be used as a theoretical basis for implementing the "dual-punishment system" for legal persons.

Improvement of Legislation for Criminal Offenses by Legal Persons

In our country, with the deepening of economic restructuring, legal persons will eventually have the status of independent economic entities. They will become increasingly vigorous in securing their social positions and seeking their economic interests. Accordingly, there is a greater chance for them to violate the law and conduct criminal economic activities. In view of this, some scholars suggested that our legislation go out of the framework of crimes by natural persons. Following a comprehensive investigation of crimes by legal persons, efforts should be made to readjust the contents of criminal law. While summing up our legislative experience, they said, we should include in our criminal law general provisions as well as specific articles on crimes committed by legal persons. We should enlarge the scope of such adjustment so as to provide a comprehensive guarantee for the stability of our market economic order.

On Control of Economic Crime

After analyzing the general principles governing the occurrence of economic crimes, some scholars have outlined seven categories of control measures. These are: 1. administrative measures, including measures to restrict the use of the double-track administrative system, strengthen the government's day-to-day economic management, and exercise strict supervision and management over administrative and personnel affairs; 2. criminal measures, including measures to impose certain personal restrictions and punishments on economic offenders, mete out economic penalties to them, pay attention to criminal phenomena involved in economic disputes, and deal with economic criminals under special protection; 3. technical measures, including technical crime prevention, technical management, technical crackdown on criminal cases, and technical "equipment"; 4. social measures, namely encouraging the

public to play an active role in controlling economic crimes with attention to "three things": openness, fairness, and the public; 5. measures for behavior training, namely behavior training for individuals, masses, and leaders who have committed economic crimes so as to attain the goal of crime control; 6. economic measures, that is developing, rationalizing, and serving the economy; and 7. cultural measures, including tackling the cultural structure in depth and changing the power-oriented, ethical, and introverted cultural mindset so as to eliminate a major cultural ground for the growth of economic crimes.

On Laws Applicable to Crimes Committed by "Able Persons"

Definition of "Able Persons"

So-called "able persons" are those with exceptional proficiency or who play a key role in a scientific or technological field or in some aspects of economic construction. Specifically, there are three categories: administrative personnel such as factory directors and managers, personnel in charge of supply and marketing, and scientific and technical workers. In enterprises, these personnel are only few in number, but they have a major or even key bearing on the operations. We should acknowledge the fact that, confronted with the complicated and volatile economic phenomena at present, the criteria for "able persons" and the meaning of this term are very sketchy. However, "able persons" are really recognizable and do exist. Some scholars disagreed with the "able persons" concept. They said that the term "able persons" has a vague meaning and connotation and cannot be accurately defined for the purpose of judicial practice.

Characteristics of Crimes Committed by "Able Persons"

Because of the characteristic status and positions of "able persons," the crimes committed by them have the following special features: 1. Most of their crimes are connected with their work and status. 2. Most of their crimes are property-related. 3. They maintain close relations with other "able persons" and with certain administrative and law enforcement personnel, forming a "mutual favor-giving network," which may become their umbrella. 4. Some crimes are committed when they are engaged in reform and exploration or even when they are making rather big contributions. Though the crimes and contributions are accomplished by different acts, they reflect the dual nature of "able persons."

Conditions for Lenient Punishment of Crimes Committed by "Able Persons"

As some scholars pointed out, controversy over the punishment of crimes committed by "able persons" shows the contradictions between the seriousness and pragmatism of law and between the "three helps" [in judging an act, we should chiefly consider if it helps develop social productive forces, if it helps to strengthen the comprehensive national strength, and if it helps to

improve the people's living standards] and "grasping with two hands" [grasping material civilization with one hand and spiritual civilization with the other]. For this reason, extra caution must be exercised in the actual application of lenient punishment. In general, four requirements must be met: 1. Criminal cases receiving lenient punishment must be relatively less serious and are strictly limited to those related to the offenders' duties and positions. Offenders must have pleaded guilty, shown repentance, returned what they have unlawfully taken, and met other conditions for receiving lenient punishment. 2. The lenient punishment should be based on the current law as much as possible. Nothing other than the law should be used as a basis for lenient punishment. 3. Offenders receiving lenient punishment are limited to key personnel (in particular, scientists and technicians working on key research projects) of relatively big state-owned enterprises. 4. For offenders to "atone for their crimes by performing merits," specific and explicit rules must be established and put into effect. Other scholars have deemed it inappropriate to address in general terms the lenient punishment of "able persons." In their opinion, all criminal offenders, whether they are "able persons" or not, should be given appropriate punishment on a case-by-case basis.

II. A Study of Specific Economic Crimes

On Securities-Related Crimes

Some staff members of securities-issuing companies may take advantage of unpublished inside information to buy or sell securities or make paid transfers of securities. These activities are referred to as securities transactions by persons in the know infringing upon the interests of regular investors. In European and American countries, such transactions are generally considered crimes, and the trend is to impose heavy punishment on them. Some scholars have studied in-depth the offenders, forms of acts, and targets of infringement (the scope of securities) involved in such transactions and elaborated on the concept of inside information and other important related facts. They have suggested that provisions be included in China's securities law to ban such transactions and penalize violators. Serious cases leading to grave consequences, they said, should be subject to criminal punishment.

On Falsification of Registered Capital

Some scholars have noted that false records of registered capital and unscrupulous withdrawals of capital are causing immediate and potential harm to our market economy. By false records of registered capital, they mean that the amount of registered capital is recorded in the books but is not actually available, that the capital is taken away after it has been verified by the authorities concerned, or that power is used as a capital share. All these make the enterprise an empty entity without capital or with seriously insufficient capital. Registered capital is the economic basis on which the enterprise depends to survive, operate, and develop. It is the main

thing on which the enterprise relies to gain its rights and abilities and become capable of conducting its activities. Because of the economic and legal significance of registered capital, the act of falsifying registered capital has two harmful effects: First, there will be no material foundation and liability guarantee for market transactions. Debt disputes cannot be settled. Illegal business people will be able to evade property-related responsibilities. Creditors will be unable to get true property compensation for their economic losses. Second, there will be such phenomena as extravagance and waste and wanton embezzlement of the nation's collective property. This will directly affect the macro environment of the market economy. In view of this, the scholars made the following proposals to legally control such acts: 1. Capital-verifying personnel negligent of duty, allowing deceptive capital reports to pass the examination and thus inflicting losses on the nation and society, should be convicted of malfeasance. 2. A new crime—malpractices for selfish ends, should be set up for false or deceptive reports on registered capital or illegal withdrawals and transfers of such capital. Other scholars have not agree with this. Falsification of registered capital, they have said, is a relatively common phenomenon amid economic activities. This involves the reasonableness of the amount of registered capital required for setting up a company. It is, therefore, very imprudent to hastily resort to criminal law in dealing with this question.

On Swindling

Some scholars have rather intensively analyzed the acts of using economic contracts to swindle property. They believe that using false contracts to swindle prepayment or goods for doing one's own business or for use by oneself, thus inflicting a heavy economic loss on the other side, is a crime injurious to society. Swindling to take over others' property and swindling aimed at using others' property are both swindling crimes. According to China's criminal law and judicial interpretation, however, swindling means the former only, not the latter. From the viewpoint of infringement on property ownership, swindling to take over others' property infringes on the property ownership as a whole, and swindling to use others' property infringes on most of the property ownership, namely rights to possess, use, and benefit from the property. Both should be regarded as acts of infringement on others' property, the only difference being the degrees of infringement. Anyone who has swindled to use others' property, created lots of economic disputes, and inflicted irrevocable losses on others should bear criminal liabilities. In setting up the punishment system, however, penalty for swindling to use others' property should be lighter than swindling to take over others' property. Other scholars have probed into the new trend of swindling and the countermeasures to be taken.

On Manufacturing Fake and Shoddy Products

Honesty and credibility is the basic principle for market activities. Imitation of trade marks and manufacture and sale of fake and shoddy products are gross violations of this principle. The injury done by these acts to society is increasingly noticeable under the present condition where we are promoting the market economic system. Some scholars have discussed the various expressions of these acts at present as well as how they constitute crimes and what punishment they deserve.

On Crimes of Speculation

According to some scholars, principal acts of speculation defined in criminal law are going to become legal. An example is the act of buying and reselling for profit. With the liberalization of prices and the establishment of spot and futures markets for various means of production, buying and reselling major state supplies has become or is becoming a legal act. Quotas, approvals, contracts, bills of lading, and allotments of railroad freight cars will also become items for futures trade on the market. In addition, the state has begun liberalizing the foreign exchange market step by step. Now, private buying and selling of foreign exchange is allowable and no longer an illegal act. Also, the appearance of pawn shops has broken the state monopoly on the gold and silver trade. Now that China's reentry into the General Agreement on Tariffs and Trade is drawing near and a scene of global commodity circulation is taking shape, buying and reselling commodities designated for export will also become legal. In view of this, the scholars said, there should be no crime for speculation. Acts of making and selling shoddy and fake products—selling poor-quality goods at the prices for those of fine quality and using fake goods to imitate real ones—may be treated as a different crime and should not be branded as "speculation." However, other scholars have raised an objection to this. They have held that the rubric of crimes of speculation should be retained, but their scope should be reasonably adjusted.

On "Rebates"

In the opinion of some scholars, "rebate" is a legal act involved in transactions under the present economic situation. A law-related question to be studied is how to deal with the act of receiving rebates privately. "Rebate" is the return of part of profit. If the beneficiary is a state-owned enterprise or institute and if an employee receives a rebate for the enterprise or institute but puts it into his own pocket, he is committing an infringement on the property right of the enterprise or institute. Hence, it follows that anyone taking advantage of his position to pocket rebates that should be turned over to his work unit is committing an act bearing the characteristic of embezzlement. He should be convicted of embezzlement rather than bribery.

Involvement of Triad Society in Local Politics

93CM0413A Taipei HSIN HSIN WEN [THE JOURNALIST?] in Chinese No 330, 10 Jul 93 pp 52, 57

[Article by Ch'en Chien-hsun (7115 1696 0534): "Forces Abruptly Rise in Four Stages, Political Connections Stand on Two Sides; Taiwan University Professor Chao Yung-mao Is Interviewed on the Development of the Taiwan Underworld"]

[Text] Taiwan underworld forces, following forty years of development of Taiwan society, with the Legislative Yuan's "June 25th" mass disturbance, stepped from the social plane to the political plane. Although this situation received a high degree of popular concern, it is clear that local politics has been invaded by underworld forces for a number of years, and this incident does not seem all that unexpected.

According to the analysis of Taiwan University political studies professor Chao Yung-mao [6392 3057 5399], who has specialized in the study of the Taiwan underworld and local political factions for a number of years, the transformation of the "social underworld" into the present "political underworld" can generally be divided into four stages.

The period from the recovery of Taiwan in 1946, to 1962, belongs to the "social underworld period." At that time urban gangs were formed in Taiwan, and from the juvenile delinquent period in the early 1950s to the rise of the Four Seas and United Bamboo gangs in the late 1950s, there was an abrupt increase in their size and organization.

By the 1960s, the rapid development of Taiwan's large cities spurred the accelerated development of urban underworld gangs, freeing them from their scattered and underground status and allowing them to engage in aboveground economic and business activities in an organized and large-scale manner; they thus entered the "economic underworld period."

In the 1970s, among the underworld gangs throughout Taiwan, especially underworld gang forces in large cities that had been developing for twenty years, there emerged thousands of gangs on a scale of such gangs such as Taipei Hsi-men-ting's "Flying Eagle Gang"—a thousand-member "organization," and the "activities" that they developed included futures companies, Western restaurants, motion picture companies, and publishers, in addition to the call girl stations, tearooms, houses of prostitution, professional gambling dens, underground bars, and loan sharks that generally are associated with underground activities. Underworld forces began to get involved in bidding on public projects and campaigning during election periods to the point that gang organizations and individuals in such places as Yunlin County, Chiai County, Changhua County, Tainan County, and Kaohsiung County and City were actively involved in campaign assistance and associating with politics even to the point of participating in elections.

From the 1980s to the present, underworld development has entered the "political underworld period." The 12 November 1985 "I-Ch'ing Special Case" anti-underworld movement indirectly encouraged the underworld to reorganize and change its nature and caused the upper echelon underworld forces to establish connections and internationalize their operations and make them public, and actively participate in politics and open up normal legitimate mutually dependent and mutually beneficial areas. The lower echelon underworld forces scurried all over the place and in election periods engaged in intimidation and extortion, producing conflicts in local elections, developing local factions, and even acting as local party headquarters for nominations.

Involvement in Politics Reaches Every Profession

Underworld forces' involvement in local politics developed differently because of the different characteristics of agricultural counties and urban regions. Contrasting the underworld gang called the "The Vertical Line" [tsung kuan hsien; 4912 6306 4848] in Yunlin's western Taiwan coastal region with the urban gang "Big Lake" in Taichung City, Chao Yung-mao points out in his research that the Yunlin developmental model is similar to that in most western Taiwan counties. In the 1970s, the participation of various rural gang members in village (city) delegate elections gradually increased and they were actively involved in election assistance at the county level and above. By the 1980s, they were more actively involved in the county-level and even the central-level elections. In the 12th Yunlin County Council, council members with underworld backgrounds occupy 40 percent of the 43 positions.

But in metropolitan districts such as Taichung City, with its accelerated expansion and enrichment in the 1970s, underworld activities such as call girl stations, private houses of prostitution, professional gambling dens, Western restaurants, and amusements accompanied its development. In the 1980s, they flourished even more. The underworld developmental model was to buy off the jurisdiction's police and collude with the elected representatives in the district to protect themselves and their activities. But because in metropolitan districts the level of knowledge was rather high and along with that the level of education of those engaged in politics also was rather high, it has not been easy to rely on vote-buying to get elected and underworld personnel do not participate a great deal in politics. Of the 43 members of the 12th Taichung City Council, only one has an underworld background.

The relation of underworld forces to the two parties has become even more involved with the "25 June" Incident's elevation by the people to an issue of "outside province registration" and "Taiwan Province registration." Chao Yung-mao indicates that most of the leadership of the outside province gangs (such as the United Bamboo Gang and the Four Seas Gang) come from military dependents' villages. Their clan organization is similar to the secret societies of an earlier period (such as

the Ch'ing Pang [7230 1620] and the Hung Men [3163 7024]). Most of the people from outside province gangs have strong Great China emotional attachments and are rather averse to the Democratic Progressive Party [DPP]. But because after the 1980s, gangs from outside provinces gradually changed from metropolitan area gangs to economic-style gangs and even became international through smuggling and branch companies, and with most underworld forces making decisions based on profit and getting close to those in power, Chao Yung-mao believes that underworld forces from other provinces not only would not dread the possibility of a future DPP government, but at the same time might even gradually seek to integrate with the DPP.

Because there are a number of gangs in this province and they do not have enough resources to meet their needs, they become principally engaged in seizing resources. Underworld council members dividing up local public projects and budgets on the spot is a common occurrence. Underworld threats, extortion, meddling with bids, and seizing bids have become extremely odious. For example, when bids are tendered on public projects, the local administrative unit, under "pressure" from the underworld peoples' representative, attaches the bill-tendering announcement to a wall and has a photograph taken to keep as evidence, and then immediately tears the announcement down. The contract for the project is

then presented directly to a pile of parasitic industries that are associated with this peoples' representative. This is a disgusting example of the local rapaciousness of the Taiwan provincial gang "political underworld."

Chao Yung-mao also points out that the gangs themselves are extremely exclusive and authoritarian. Because the vast majority of those participating in gangs are not very well adapted to society, they hope to find another world to make a living. At this time, the "big brother" in the gang plays the role of "guardian" and "protector," and when a big brother gives an order, it is as strong as a contract.

Chao Yung-mao believes that the central authorities were the key people in the disturbance in the Legislative Yuan, but the problem originated locally. He indicated that in local politics not only local factions and election-buying can be seen on the surface, but after last year's legislative elections, the underworld forces had two of their own elected to the central government. Now only if each party within the government conducts conscientious self-cleansing and the government conducts a policy of political sweeps of the underworld and absolutely stops or restricts people with an underworld background, and lets "mountains return to mountains and rivers return to rivers," will politics be pure.

Chart of the Relationship Between the Taiwan Underworld and Local Elections

General Nature	Nature of Underworld Elements	Manner of Election Involvement	Object of Election Involvement	Affect
Social (underground) underworld	Integration of local underworld with scattered underworld from other areas	Intimidation, extortion, or election assistance	Mainly simply making financial demands; occasionally also using election assistance to blackmail candidates after they are elected to protect their illegal persons or activities	Increased cases of bloody election violence and worsening law and order.
Economic underworld	Most are local underworld with underground and above ground activities	Mainly election assistance, a few also carry out intimidation and extortion	Occasionally making financial demands; mainly making political investment through election assistance and colluding with politicians to protect and expand their underground or above ground activities.	Increased underworld economic power; threat to police discipline, discipline of government officials, and law and order; and affect on election atmosphere and quality
Political underworld	People with local underworld background engaging in politics by campaigning	Direct participation in politics	Direct participation in politics and allowing their persons, influence, and activities to come above ground, while protecting and expanding their activities.	Increased underworld arrogance, worsening election buying, increased election violence and violent political processes, affecting political party images and nominating activity.

Source: Data supplied by Professor Chao Yung-mao

Public Perception of Preliminary Working Committee

93CM0415A Hong Kong MING PAO in Chinese
5 Jul 93 p 2

[Unattributed article: "Most of Hong Kong Residents Doubt About Functions of Preliminary Working Committee, Believe That It Cannot Protect Hong Kong People's Overall Interests"]

[Text] According to a MING PAO special dispatch, a poll conducted by an independent market research corporation on behalf of MING PAO shows that more than 40 percent of the residents in Hong Kong believe that the Preliminary Working Committee for the Preparatory Committee of the Hong Kong Special Administrative Region (hereafter referred to as "Preliminary Working Committee") cannot protect the overall interests of the people in Hong Kong. The number of these residents is 10 percent higher than those who think otherwise. However, views, either negative or positive, about Hong Kong committee members' representativeness, are fairly even.

The poll was conducted by the Hong Kong Statistics and Business Research Corporation on 2 and 3 July in the form of random sampling. It successfully called on 618 persons over 18 years of age via telephone.

The NPC Standing Committee decided to set up the Preliminary Working Committee on 2 July and appointed 57 committee members, 30 of whom were from Hong Kong.

According to the poll, 43.5 percent of the respondents hold that the Preliminary Working Committee cannot protect the overall interests of the people in Hong Kong; 14.9 percent of these adopted a strongly negative attitude, saying: "It definitely cannot" while the remaining 28.6 percent said: "It somewhat cannot."

Slightly less than 30 percent of the respondents adopted an affirmative attitude toward the Preliminary Working Committee in protecting the interests of the people in Hong Kong, of whom only 2.1 percent said: "definitely can," while the remaining 27.8 percent said: "perhaps can." On the issue of whether or not the Preliminary Working Committee can protect the interests of the people in Hong Kong, the percentage of respondents who aired no views or said: "I don't know" was relatively high—26.5 percent. On the issue of Hong Kong committee members' representativeness, the number of respondents who expressed either positive or negative views was about equal. Overall, 43.3 percent of the

respondents said that Hong Kong committee members are fairly representative. However, 43.2 percent of the respondents also held that these committee members are not so representative, and the remaining 13.4 percent of the respondents expressed no opinions or said: "I don't know."

Among those respondents who adopted a positive attitude toward Hong Kong committee members' representativeness, only 4.5 percent of them held that Hong Kong committee members are "definitely representative," while the remaining 38.8 percent of them were relatively moderate in views, saying that these Hong Kong committee members are "somewhat representative."

On the other hand, among respondents who adopted a negative attitude toward Hong Kong committee members' representativeness, a relatively high percentage of them assumed a strongly negative attitude. Only 14.4 percent of the respondents held that the Hong Kong committee members were "definitely not representative," while the remaining 28.8 percent of them held that they were "not so representative."

After an analysis of the respondents' backgrounds, it was discovered that their impressions of the Preliminary Working Committee, their views on the question of whether or not the committee can protect the interests of the people in Hong Kong and on the issue of Hong Kong committee members' representativeness, were influenced by respondents' schooling, age and income.

On the question of whether or not the Preliminary Working Committee can protect the interests of the people in Hong Kong, respondents with primary school education or below notably assumed an affirmative attitude. About 43.4 percent of the respondents with the aforementioned schooling held that the committee can protect the interests of the Hong Kong people, while only 21 percent of the respondents with college education adopted the same affirmative attitude.

Older respondents also tended to support the Preliminary Working Committee. The percentage of respondents over 40 years of age who held that the committee cannot protect Hong Kong people's interests was apparently lower than the average figure.

Respondents with higher income tend to adopt a negative attitude toward the Preliminary Working Committee. The percentage of respondents earning more than HK\$15,000 income who held that the committee cannot protect Hong Kong People's interests was notably higher than the average figure. As high as 60 percent of those with over HK\$20,000 income held that the committee cannot protect Hong Kong people's interests.

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